S. HRG. 103–42

ANTICIPATED NOMINATION OF DONNA E. SHALALA

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON THE

ANTICIPATED NOMINATION OF

DONNA E. SHALALA TO BE SECRETARY OF HEALTH AND HUMAN SERVICES

JANUARY 14, 1993

Printed for the use of the Committee on Finance

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ANTICIPATED NOMINATION OF DONNA E. SHALALA TO BE SECRETARY OF HEALTH AND HUMAN SERVICES

THURSDAY, JANUARY 14, 1993

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan presiding.

Present: Senators Baucus, Bradley, Pryor, Riegle, Rockefeller, Breaux, Packwood, Dole, Chafee, Durenberger, and Grassley.

Also present: Senators Kohl and Feingold.

[The press release announcing the hearing follows:]

[Press Release No. M–2, January 7, 1993]

HEARING ON THE ANTICIPATED CONFIRMATION OF DONNA E. SHALALA SCHEDULED

WASHINGTON, DC.—The Senate Finance Committee will hold a confirmation hearing and executive session on the nomination of Donna E. Shalala to be Secretary of Health and Human Services.

The Committee will meet at *10 a.m., Thursday, January 14, 1993* in room SD–628 of the Dirksen Senate Office Building.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. A very good morning to our distinguished witness and her associates who are with her, and to our guests.

This is a meeting of the Committee on Finance to consider the prospective nomination of Dr. Donna Shalala to be the Secretary of Health and Human Services.

The chairman of our committee, Senator Bentsen, is not here as he will, of course, be nominated by President-elect Clinton to be the Secretary of the Treasury.

The Democratic Caucus has voted that in the event that Senator Bentsen leaves the Senate that the ranking member would become the chairman. In that capacity, I am here to welcome Dr. Shalala and this array of gentlemen whom she brings along.

First of all, our dear friend and colleague, Senator Kohl of Wisconsin.

Good morning, sir. And would you perhaps begin the introductions?

STATEMENT OF HON. HERB KOHL, A U.S. SENATOR FROM WISCONSIN

Senator KOHL. Well, thank you very much, Mr. Chairman and members of the committee.

I am delighted to be joined today by our new colleague, Senator Feingold, Representative Scott Klug from Madison, and our Governor from Wisconsin, Tommy Thompson.

Our collective presence today should give this committee a sense of the bipartisan cooperation and support that Donna Shalala will command as Secretary of Health and Human Services, not, however, that it is ever possible to keep everybody in Washington happy.

There is an old saying that is usually attributed to President Truman, "If you want a friend in Washington, then you had better get a dog." Now, Donna has a dog named Bucky. [Laughter.]

And if I know Donna, Bucky has already met with Senator Byrd's dog, Billy. And as we speak, Bucky is probably over in Senator Dole's office in a courtesy meeting with his dog, Leader.

Mr. Chairman, Donna Shalala is going to be an outstanding Secretary of HHS. And I support her nomination with unqualified optimism and confidence. Her administrative talents are impeccable.

When she takes on a task, she masters the details and pursues it with veracity and velocity. To those who work with her, Donna is an inspirational motivator. She attracts and retains quality people.

She will be a strong advocate for children and families. She has successfully faced the hard realities of deficits and financing. She has increased both the prestige and the financial resources available to our Nation's largest public research university, the University of Wisconsin.

She is a tenacious negotiator, but accommodating of the concerns of those with a different view. And she can say no to influential constituencies in ways that leave them respectful and ready to help.

Now, that is an array of talent. And we need Donna Shalala's talent in Washington. Donna is an excellent administrator, a charming and invigorating individual. And she is politically accomplished.

And so I am delighted to introduce her to the committee today. She is, indeed, an outstanding nominee who enjoys my unqualified support.

Senator MOYNIHAN. Thank you, Senator. Those words will carry considerable weight with this committee, as you know.

And I believe our next testifier will be our new esteemed colleague, Senator Russell Feingold, also a Democrat of Wisconsin.

May the La Fulite tradition live.

STATEMENT OF HON. RUSSELL FEINGOLD, A U.S. SENATOR FROM WISCONSIN

Senator FEINGOLD. Thank you very much, Mr. Chairman.

Mr. Chairman and members, I am honored to appear today with my colleagues from Wisconsin on behalf of Health and Human Services Secretary Designate, Donna Shalala.

We are proud that two Wisconsinites have been asked to serve in the new Cabinet. And we know that Chancellor Shalala and Congressman Aspen will do so with distinction.

It has been my privilege to work with Secretary Designate Shalala when I was a member of the Wisconsin State Senate and she was the Chancellor of the Madison campus of the University of Wisconsin.

She excelled both in her ability to run one of the country's largest universities, with a student body of well over 40,000, and her willingness to meet with members of the legislature and to respond to our concerns.

Mr. Chairman and members, that you find her here at a table next to a Republican Governor, a Republican Congressman, and two Democratic Senators is no accident.

Her management of the University of Wisconsin was truly nonpartisan. She strengthened the relationship between the university and the business community and brought corporate techniques of total quality management to bear on the institution.

At the same time, she led the campus to a new era, marked by increasing student and faculty diversity, and enhanced undergraduate education. And at a time of severe budget constraints that I and the Governor knew all too well, she showed creative approaches to increase support both for the physical and intellectual infrastructure of the university.

I would like to emphasize that Donna Shalala has been especially responsive to the concerns expressed by those of us in the Wisconsin legislature at the time.

Early in her tenure as the head of the Nation's largest public research university, she made improving undergraduate education a high priority.

And she has succeeded in improving the balance between the three principle missions of the University of Wisconsin, those being undergraduate education, research, and public service.

Mr. Chairman and members, Wisconsin is honored by President-elect Clinton's choice of Donna Shalala. She will do an excellent job.

And I want to add that all four of us here with Donna have graduated at one time or another from the University of Wisconsin, but even those who are not fortunate enough to have attended the greatest of modern universities will recognize the outstanding qualities of Donna Shalala.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Well, they certainly teach moderation. [Laughter.]

Someone who is in a position to speak both of our nominee and that of Madison is the distinguished Governor.

Governor Thompson, we welcome you, sir. It is a great pleasure to see you before our committee again.

STATEMENT OF HON. TOMMY THOMPSON, GOVERNOR, STATE OF WISCONSIN

Governor THOMPSON. Thank you very much, Senator.

And it is, indeed, a pleasure for me to be here. And it is nice to be introduced as the Governor from Wisconsin because last week

when I testified before the Armed Services Committee, the ranking Republican Senator, Senator Thurmond, introduced me as the Governor from Minnesota. [Laughter.]

So it is nice to be recognized. It is the greatest State in the Union.

Senator DURENBERGER. Minnesota, you mean. [Laughter.]

Governor THOMPSON. I am going to get to that, Senator Durenberger, in just a minute.

Senator MOYNIHAN. Governor Thompson, in this body which tends to be a little behind the curve, it is called up north here.

Governor THOMPSON. I understand that, my friend.

It is a true honor for me as Governor to be here today to express my support and my admiration for Donna Shalala's nomination to serve as the next Secretary of Health and Human Services.

Donna Shalala came to the university in 1988 to serve as Chancellor of the University of Wisconsin, the Nation's sixth largest university, and as the two previous speakers have indicated, the largest public research university in the United States.

She was the first woman to serve in that position. She was also the first woman ever to lead a Big 10 university. In that time, she has shown herself to be a top-notch administrator, someone who is not afraid to stand up for what she believes in.

She is a very involved and active member of the community. And after only five short years, Wisconsin is very proud to call her one of our own. She will make an outstanding, strong Secretary of Health and Human Services.

Donna is a true leader. She loves a challenge. She is quick to discern what is important and needs immediate attention. She is also very adept at spotting potential weaknesses and turning them into strengths.

She took an athletic department at the university that was losing money and losing the support of students and alumni, reorganized it, revitalized it, and turned it into a true asset for the university.

And this year, after we beat Michigan, Senator Riegle, and Minnesota, Senator Durenberger, we are going to the Rose Bowl. And Donna Shalala will be the true Badger she is. [Laughter.]

She has done a fantastic job as head of our university hospital, one of the best teaching and research hospitals in the Nation.

I myself have worked with Donna on many occasions. One of her greatest strengths is building partnerships, forging public-private links between the university and the community and between the university and business.

Working together, we have been able to modernize and expand the university's huge research facilities. And we have worked to support new industries that grow out of the University of Wisconsin's research projects.

I know one thing that attracted Donna to the university is something we call the "Wisconsin idea," a century-old prescription for a strong and interactive link between the university and the State social welfare system.

Following this idea, Wisconsin, particularly, the university has served as a laboratory for the Nation's Social Security system, and in the last few years for developing a national child support program that is heralded as number one in the country. Wisconsin is

also serving as one of the leading State laboratories for welfare reform.

It is, of course, an honor for Donna to be nominated for this important position, but it is also an honor for our State of Wisconsin as well.

Donna is a human dynamo. She works extremely hard. And she gets a lot accomplished. We will miss her leadership at the university, but I am confident that she will bring the same kind of energy and dedication that she displayed as chancellor to the Nation's largest agency.

With that, Mr. Chairman, it is my privilege to enthusiastically endorse the nomination of Donna Shalala for Secretary.

Senator MOYNIHAN. Well, sir, you could have hardly been more generous. And it comes with particular grace that a Governor of the opposite party should speak so well, as I do not doubt, will our final witness, our colleague from the other body, Scott Klug. I believe, you represent the Madison campus as well?

Congressman KLUG. Yes, I do, Senator.

Senator MOYNIHAN. We welcome you, sir. And proceed if you will.

STATEMENT OF HON. SCOTT KLUG, A U.S. CONGRESSMAN FROM WISCONSIN

Congressman KLUG. Thank you.

Well, let me say a little bit more about what you just hinted at. I suspect my decision today to testify along with Governor Thompson may give pause for some thought in Republican circles.

Unfortunately, perception is sometimes considered reality. And the perception among some Washington Republicans and some newspaper columnists has been one of absolute dismay at her appointment, but I have to tell you that the perception of Donna Shalala within Wisconsin is much different than it is within the beltway itself.

In the past couple of weeks, not only the Governor and I have praised her nomination, but so have a number of other State Republicans, including John MacIver who was the chairman of the Bush-Quayle campaign in Wisconsin for both 1988 and 1992.

Gordon Baldwin, who is a very conservative member of the University of Wisconsin law faculty—and let me underline very conservative—wrote a letter strongly defending her to William Safire of the New York Times when Safire attacked her as the "high priestess of political correctness."

Professor Baldwin wrote in reply, quote, I'm not in the habit of praising Democrats, but Mr. Clinton has picked a winner here. End of quote.

Well, frankly, neither Governor Thompson nor I are in the habit of trying to sell Democratic appointments either, but in this case, I think the President-elect has chosen very well.

Business Week called her one of the top five college administrators in the country. And let me tell you a story I think will illustrate why.

Donna Shalala and I hit it off within a couple of weeks of my first election when she told me how strongly she opposed pork projects for the University of Wisconsin.

She and I believe that in an era of increasingly tightening Federal budgets, merit should prevail in university funding. Increase funding for the National Science Foundation, Chancellor Shalala has argued, and the University of Wisconsin will win the competition on the merits of its proposal as one of the top research facilities in the country.

Merit for infrastructure and merit for research funding, what a novel idea and one that, I think, frankly my colleagues in the Senate and the House on the Appropriations Committee should keep firmly in mind.

When the University of Wisconsin deans visit my office on an annual basis and present me with their wish lists of projects, I would remind them of both my aversion and the chancellor's aversion to pork funding. It was never a very popular principle on campus, but it was very sound public policy.

Recognizing the further constraints on the University of Wisconsin by both shrinking Federal and State budgets, Donna Shalala began the largest fund raising campaign in the University of Wisconsin's history.

Rather than whining about a lack of resources, she simply decided to raise them. And she did it by raising almost $400 million, exceeding the goal and well within the timeframe that had been set out in the original plan.

Again, I want to explain another initiative we had a chance to work on together. Like many top research facilities, much of the University of Wisconsin's scientific infrastructure is in rough shape these days.

Many science and engineering buildings were built with Sputnik-era money and are frankly showing their age. But again, rather than begging at your doorstep, Donna developed an idea called WISTAR.

In brief, she talked the Wisconsin legislature into committing funds to rebuild that infrastructure, but campuses were only eligible if they raised matching funds from the private sector.

Now, keep in mind that the program was designed in such a way that the Madison campus had to compete with more than two dozen other University of Wisconsin campuses for the very money in her very own program. Again, those two ideas, competition and merit.

Just a couple of quick notes on a few other projects. As a one-time graduate student, I can tell you how relieved I was when a campus of 43,000 finally switched from manual registration to attend classes to computerized, touch-tone telephone registration. And you can hear the laughter of the University of Wisconsin's students behind me who know what this is like.

It saves students hour upon hour of waiting in line to fill out cards and register in person for each individual class. It was a move to make the campus more user friendly, an idea also pushed very strongly by Governor Thompson.

In order to develop a profit center for the University of Wisconsin, Donna Shalala led the charge to privatize the University of Wisconsin Hospital. She ultimately failed because of opposition from employee unions, but again, her instinct was to push the envelope for change.

And as Governor Thompson has already warned you, Senator Riegle, she even shook up the sports program, long on tradition and short on winning. She played a major role in luring Barry Alvarez from Notre Dame.

And this year, the team flirted with a bowl bid and attendance soared by an average of 22,000 fans a game.

I do not think either the Governor or I will try to convince the committee that Donna Shalala is a Republican. She is a life-long Democrat, but she showed during her tenure at the University of Wisconsin a tendency to bury partisan politics and an equal fervor to simply get things done.

She has made mistakes. Some of you on this panel, like I, have visceral contempt for UW's attempt at a hate speech code.

The code was developed in response to several racial incidents on campus and was an affront to the First Amendment and was correctly stricken down by the courts.

But keep in mind that while Dr. Shalala was an early advocate of the idea, it was pushed and developed by the UW Board of Regents. And ultimately, it was never put into place on the UW campus because in time, the chancellor came to understand it was a mistake, I think, both legally and philosophically.

The court case striking down the law involved all of the University of Wisconsin campuses except the campus at Madison.

In balance, I believe you will find her to be an outstanding Cabinet Secretary. You will find her to be, I predict, someone who is tireless, willing to question assumptions, and not afraid of making tough choices.

And as a member of the House Energy and Commerce Committee, I look forward to working with her on health care in particular.

Based on our experience in Madison and the perception in Wisconsin, she will do very good work in President-elect Clinton's Cabinet, and I predict, based again on our experience in Wisconsin, do some of her best work with Republicans.

Thank you.

[The prepared statement of Congressman Klug appears in the appendix.]

Senator MOYNIHAN. Well, that is a remarkably fine introduction, Representative Klug.

I am an old CCNY man. I have the slight sense of middle-westerners carried away with football fever. [Laughter.]

But whatever it is, it is unanimous.

And we thank you so much for coming.

Congressman KLUG. Thank you.

Senator MOYNIHAN. Especially Governor Thompson, your coming all this way. And we will be, you may be sure, attentive to your remarks as we proceed.

Governor THOMPSON. Thank you, Senator.

Senator MOYNIHAN. Thank you, Senators, in particular.

And now, the pleasant moment arrives when we welcome you to the committee, Dr. Shalala. You have a statement which you can read. If you like, we will place it in the record in any event as written. You may proceed exactly as you wish and for as long as you desire.

STATEMENT OF DONNA E. SHALALA, SECRETARY OF HEALTH AND HUMAN SERVICES DESIGNATE

Dr. SHALALA. Thank you very much, Chairman Moynihan.

Good morning, Chairman Moynihan, Senator Packwood, and members of the Senate Finance Committee.

It is an honor to come before you today as President-elect Bill Clinton's choice for Secretary of the Department of Health and Human Services.

I want to thank the President-elect for asking me to lead HHS, an extraordinary Department that touches the lives of every American.

I also want to thank this wonderful bipartisan delegation from my home State of Wisconsin.

Governor Tommy Thompson, Senator Herb Kohl, Senator Russell Feingold, and Congressman Scott Klug are all good friends that I have had the privilege of working with over the last 5 years.

I thank them for their eloquent introductions and for their support. And even more, I am proud to share with them a commitment to the people of Wisconsin.

Finally, I want to thank the Finance Committee members who made time in their busy schedules to meet with me to give me advice and to encourage me in the days since my appointment was announced.

As we met, I discovered that there is considerable common ground. We believe in public service as a noble calling. We are committed to aiding and assisting the elderly and those with disabilities.

We want to help the indigent return to the work force. We want to defeat drug abuse and reclaim the future for an entire generation of at- risk children. We want to support and strengthen families.

And we, the new administration and the Congress, want to reach a consensus on a significant health care reform proposal that lowers costs and provides health care for all Americans. These issues are central to the Department of Health and Human Services because they are essential to the lives of all Americans.

Mr. Chairman, before discussing the mission of the Department of HHS as defined by President- elect Clinton, I would like to tell you briefly about how my professional background has prepared me to lead HHS.

All of my life, at least my adult life as a teacher, an urban policy analyst, the leader of two great higher education institutions, and as a public servant during the Carter administration at the Department of Housing and Urban Development, I have devoted myself to the concerns of average working people and their children, to issues concerning women and our poorest children, and to the struggles that all of these groups face.

I have hands-on experience dealing with problems of teenage pregnancy, housing for single mothers, services for the elderly and handicapped, and the need to integrate social services in rural communities.

At Hunter College and the University of Wisconsin-Madison, I directed large, multi-faceted public institutions that serve a broad

spectrum of Americans with programs of the highest academic excellence.

At Madison, I administered a $1 billion budget which was stretched even more tightly due to cutbacks in Federal and State aid. At both institutions, I worked with brilliant scientists and health care professionals and learned from the leadership of some of the Nation's premier health care and social science research centers, such as Hunter's Brookdale Center on Aging, Wisconsin's Waisman and McGardle centers, and the Poverty Institute.

Throughout my career, I have worked to forge partnerships between the public and private sectors to help improve the health, education, and welfare of our children and their families.

I have done this not only in higher education, but also as a member of numerous boards: The Committee for Economic Development, an organization of the chief executives of the major corporations and educational institutions; and the Children's Defense Fund, the leading advocacy group for our Nation's neediest children.

I am deeply convinced that in any major program of social reform, the business community must be involved from day one as full participants.

As the committee knows, the Nation is facing staggering challenges in areas served by the Department. Health care expenditures are exploding, even as 70 million Americans have no health care coverage or insufficient coverage.

On AIDS, we have not fully faced our responsibilities to combat the spread of the disease, to fund research, and to provide care to tens of thousands of patients who cannot afford adequate treatment.

Tuberculosis, a nineteenth-century disease that we almost eradicated, threatens to come back in full force in the 1990's, particularly in our large cities.

It is a scandal that we lag behind our competitors in the world community in immunizing our children against preventable diseases, such as polio, rubella, mumps, and measles.

One in five children are now impoverished. One in five. They are our children, Mr. Chairman. And our future is inextricably tied to them and their futures.

The Department of Health and Human Services can and must address these challenges though it will not be easy and cannot be done overnight.

With more than 126,000 employees and a budget that covers 250 different categorical programs, the Department has the capacity to improve the lives of every single American.

With your cooperation, vigorous leadership from the White House, and public support, I believe the Department will again accomplish its traditional missions and new assignments from the Clinton administration.

We intend to collaborate with State and local agencies and with the private sector, as we usher in a new era of empowerment for the Department's civil service employees.

No problem affects families around the kitchen table more than the radical escalation of health care costs, and no problem demands our greater attention as policymakers and public servants.

The American people want, need, and have voted for health care reform. And we must have the courage and the wisdom to replace the existing system with something better.

We must lower the growth rate of health care expenditures so that it comes closer to that of the economy. Without such a reduction, we will price American families out of the health care market, price American exports out of the global market, and place large barriers before our efforts to reduce the budget deficit.

It also is imperative that we gradually provide coverage to the 35 million Americans who have no health insurance and to the 35 million more who have inadequate insurance.

President-elect Clinton has said that it is time to treat access to high-quality health care as a right and not a privilege.

Ultimately, the Clinton administration, working hand in hand with Congress, will bring a landmark health care reform bill to the American people, a proposal that will bear the imprint of a broad array of Americans and reflect the ideas of consumers and providers, both political parties, State and local governments, labor and health professionals, and the business community.

As we develop the legislation, we will work with this important committee so that we get this job done promptly and get it done right.

As we reform the health care system, the Department will also be devoting its attention and energy to other areas of critical need.

We will stress vigorously prevention in areas ranging from preventive health care and prenatal care to family planning and disease control so that we treat the causes of illness, as well as their consequences.

For children, this means strengthening our commitment to the Head Start program and giving our young people a healthy start through increased immunizations.

For public assistance recipients, this means embarking on an innovative effort to make welfare a truly transitional program as part of our overall plan to ensure that those who work full- time do not have to raise their children in poverty.

For rural areas, this means helping communities to empower themselves to meet their own health needs. We need to improve the quality of the rural health care delivery system and adopt equitable Federal reimbursements for their hospitals, clinics, and health professionals. A rural perspective must be at the table as we shape the new health care reform agenda.

HHS must develop a more comprehensive program for aggressive preventive education, treatment, and research to find a vaccine and a cure for AIDS.

Silence and bigotry combined to slow our Nation's response to this dread disease. We lost time. And that meant we lost precious lives. We want HHS to assume a prominent role in the war on AIDS. And we will vigorously support the President-elect's AIDS czar.

For seniors, we will place a high priority on addressing their health care needs. We must enhance home care, community-based personal services, and respite care in order to give more patients the choice of living at home and preserving their independence and dignity.

Further, we will continue vigorous research on Alzheimer's disease, Parkinson's disease, and other debilitating conditions, both to ensure that Americans live high-quality lives and to reduce our reliance on expensive acute, long-term care.

I will also strive to make the first 4 years of the Clinton administration the "Years of the Woman" in health care. We must continue the quest to find better treatments and even cures for ovarian and cervical cancers, for breast cancer, for osteoporosis, and other serious conditions that women face.

We must develop a comprehensive maternal and child health network and a greater number of family planning programs which will reduce the number of unplanned pregnancies, low birth-weight babies, and infant deaths.

Now that the Nation is better informed about date rape and domestic violence, the Department must work closely with State and local officials and the non-profit sector to develop strategies to prevent their occurrence.

From health care reform to welfare reform, from the fight against AIDS to the defense of our children's health, the Department of HHS has an ambitious and critically important agenda. In this work, we will save lives and serve the economy.

And I want to emphasize that all of our innovative efforts in health and human services must be accompanied by leadership at the White House and the Department that stresses individual responsibility. We should never start programs that discourage people from taking control of their lives.

Our goal is to do more than merely administer programs. We will produce results. We will treat all Americans as if they are customers in a private business.

We will invest their money as wisely as if it were our own. We will treat those individuals who seek our services with dignity, attention, innovation, compassion, fairness, and integrity.

Thank you for your attention to my rather long testimony, but it is a big Department. I look forward to your questions.

[The prepared statement of Dr. Shalala appears in the appendix.]

Senator MOYNIHAN. It was a superb opening statement, and you will have plenty of opportunity to expand.

It is a big Department, Dr. Shalala, but having watched it over the years, I begin to see its focus narrow as it has been perceptively from the time it was established under President Eisenhower as the Department of Health, Education and Welfare to the time of the change in the 1980's when it became the Department of Health and Human Services, that it has become in many ways a Department of health.

Your testimony was almost entirely about health. Most of your budget goes to Social Security, and that was not mentioned. The largest commitment the President-elect made that would affect your Department and affect our society; the largest commitment he made during the campaign from the beginning and in his acceptance speech, the President-elect, of course, at Madison Square Garden in New York said, "We will end welfare as we know it."

In the party platform and his pronouncements, he said, "Welfare as we know it will be available for 2 years, following which persons

will leave that and find work, supportive work perhaps or be given work."

You did not really mention that. You had one sentence in your long statement on that subject and nothing nearly like the sentence we heard in New York.

I put this in the context of a friendly one that I am concerned about the integrity of pronouncements that are in our political system.

When Senator Bentsen was here on Tuesday, I remarked to him that this week has been a rather clatter of campaign promises being tossed out the window in various places.

One of the first was the one to cut the deficit in half in 4 years. That was sort of a common remark. Senator Packwood will forgive me if I say it sometimes came from that side of the aisle, commenting on our side of the aisle.

The statement was made that, "Well, the deficit turns out to be larger than we knew, and therefore, we cannot keep our promise to cut it in half."

One of the comments was, "What do you mean larger than you knew? Everybody knew they were lying," which is a strange view of our public figures.

I said to Senator Bentsen that there have been 29 budget directors since 1921, and it just happens that I have known 18 of them. Back in the old days, it would have been unthinkable for a budget director to associate himself or herself with a revenue forecast that he or she did not think was accurate.

The President who asked a director to do that would find a resignation on his desk the next morning.

And the same way with campaign promises. That welfare promise was not a small one. One out of every three American children at this point will be on welfare before they are age 18, four out of every five black children. So we are not talking about a few people.

And this question has arisen. In New York City, the New York Daily News which you remember well from your days in the Big Apple and Hunter, I guess it was Ellis Cose probably had an editorial page that he wrote sometime ago. And it was directed to you. It was called, Hard Questions about Domestic Policy. I would say it was directed to President-elect Clinton.

It says, "As Governor of Arkansas and presidential candidate, you made welfare reform a top priority. Donna Shalala, your nominee for Secretary of Health and Human Services says specifically that it is not one of hers. Which one of you will change your mind?"

Perhaps I might put Mr. Cose's question to you now.

Dr. SHALALA. Mr. Chairman, none of us is changing our minds. And, indeed, while I did not dwell as long on the President-elect's welfare reform promises, you can be assured that if I am confirmed, from the moment we move into the Department, we will have a task force at work on the President-elect's welfare reform pledges.

Let me say that that will be even more reflected in the quality of the appointments at the presidential appointment level. Those appointments will make it very clear that we have a serious commitment to building on the Family Support Act and going to the next series stage of recommendations for welfare reform.

Senator MOYNIHAN. Well, I am pleased to hear that. And I am sure it is true, but may I just mention that you mentioned the Family Support Act. And I think particularly with Governor Thompson having been so generous and who has been trying to work with that Family Support Act and be as innovative with it as the law provides for and encourages.

It says there is a reciprocal responsibility here. The society has to help mothers and children. Mothers have to help themselves. Fathers have to pay.

Now, you are Chairman of the Children's Defense Fund I believe. And you have been a member of the board forever I guess. We had an oversight hearing on implementing the Family Support Act of 1988. We had it in 1989.

And Ms. Nancy Ebbe, who is the senior staff attorney, came before us and in very frank testimony said the Children's Defense Fund had opposed the Family Support Act.

And it is a free country. I mean, that was the first effort to change welfare, to make it in the image obviously, not just for Mr. Clinton, but this party committed itself too.

Your organization in which you are the chairman was opposed to it. Are you still opposed to it? Or now that you are the Secretary and it is the law, you are going to support it. Could you help us just a little bit on that?

Dr. SHALALA. Senator Moynihan, the Children's Defense Fund did initially oppose parts of the Family Support Act. They were very strong on, if I remember correctly, the child support portions and the child care portions of the act.

They pushed very hard to get changes. And in the end, I believe that we did support it. And I think that Nancy Ebbe's testimony at the time did indicate that overall, we ended up——

Senator MOYNIHAN. No, no. I will read it to you. It says, "What was your final position on the act? You opposed it, did you not?" Ms. Ebbe, "Yes, we did, sir."

Dr. SHALALA. Well, then, I have misspoken on it because I also know that she said that there were significant parts of the act that we were supportive of at the time.

Senator, I am here. I will be representing the President-elect of the United States. There are aspects of the Family Support Act and the Children's Defense Fund that other advocacy groups did not like at the time.

There will be aspects of the President-elect's recommendations that I am certain the advocacy groups will not like.

And I am changing roles here from the role of an aggressive advocate working on the board of an important organization, I am sure you will agree, to the role of trying to build the kind of compromise and consensus so that we can take another step for our children and for our families.

And I have no problem switching hats and switching roles. And I look forward to working with you and with your long experience in this area for the years to come.

Senator MOYNIHAN. Let us leave it just there. Very well said.

Senator Packwood.

Senator PACKWOOD. Dr. Shalala, when you were in my office, I talked with you about the Oregon Medicaid Waiver. And for the audience's sake, just let me in 30 seconds explain what it is.

In 1989, the Oregon legislature passed a series of deals that would have resulted in universal coverage in the State of Oregon. One was an employer-mandate bill.

Another was a Medicaid rearrangement bill, where we would go to 100 percent of the poverty level and would cover groups that are otherwise excluded under Medicaid, and would require that employers provide at a minimum a basic package equivalent to the Medicaid program. But we needed a waiver from the Federal Government to do it because some of the things we wanted to do, we were prohibited from doing.

The administration has the power to grant the waiver. The Bush administration would not grant it. When Governor Clinton was campaigning, he said and let me quote. And then, I would like to have this put in the record, Mr. Chairman: "If I were President, I would give Oregon permission to go forward."

[The information submitted by Senator Packwood appears in the appendix.]

Senator PACKWOOD. Is that still a commitment of the administration?

Dr. SHALALA. It is, Senator, but I would like to add that his support was for the first draft of that waiver which was submitted at the time. There have been some changes. And we will, of course, want to review those changes, as well as the issues raised in the American Disabilities Act.

And I am sure that you would have no objection to us reassuring ourselves that there is no problem of inconsistency between that waiver and the American Disabilities Act or looking at the changes.

In saying all of this, I am not suggesting for one minute that we are going to delay the decision, but simply, if there have been changes and there have been issues raised, we would want to make sure that we brief the President-elect on what those changes were.

I have no reason to believe that he will change the commitment he made.

Senator PACKWOOD. How soon do you think that we might have a decision?

Dr. SHALALA. Well, I have to tell you——

Senator PACKWOOD. I ask this because I thought we would have had it last April.

Dr. SHALALA. Well, last April or next April?

Senator PACKWOOD. Last April, I thought we would have had it.

Dr. SHALALA. Last April.

Senator MOYNIHAN. Get a commitment.

Senator PACKWOOD. I would be happy to have it this April. [Laughter.]

Dr. SHALALA. It depends on my confirmation date, Senator.

Senator PACKWOOD. I move that we confirm, Mr. Chairman. [Laughter.]

DR. SHALALA. Senator, it will be a reasonable period of time. As either the Senators or the Governor or the Congressman will tell you, I am decisive.

Senator PACKWOOD. I have heard that from any number of people. You are familiar with the cold bed situation?

Dr. SHALALA. Yes. Somewhat familiar.

Senator PACKWOOD. And here again, we find ourselves in a catch-22 situation. I assume it applies to other States also.

You are allowed to get a waiver—and many States now have it—to use Medicaid funds that otherwise would be used for nursing homes to keep people at home.

And you discover that you can just about double the bang for the buck. Home health care is cheaper than nursing homes. And Oregon has pioneered this.

Other States do it, but HCFA has now issued a rule that will not reimburse us for more people on home health care than there are empty nursing home beds on the assumption that if we had to put them in nursing homes, you can only put them in as many nursing homes beds as there are empty beds.

Well, when Oregon went to the home health care and got the waiver and discovered that we could do much more for the same value and do it more humanely, people quit expanding nursing homes and they quit building new beds.

So now you have a situation, let's say, you have 500 nursing home beds in the State. And you have 1,000 people in home health care. And let's say, 400 of the beds were occupied and 100 were not.

HCFA would only reimburse us for 100 people on the theory that that is all the beds you have. And therefore, we will not reimburse you for any more. What do you think of that situation?

Dr. SHALALA. Senator, I cannot comment on that specific situation because I obviously have not gone in and had proper briefings. But let me simply say that because we have not had a national health care plan and we have had this highly fragmented system, we are in the spot that you are describing. This system has constant, very detailed regulations of the use of Federal money which try to control costs in sometimes awkward kinds of ways that seem sometimes to defy common sense, but were put there for a reason perhaps because someone questioned whether home care was cheaper than institutional care.

Without justifying it in any way and with assuring you that the new President-elect has filled my ears with stories of HCFA and regulations of HCFA and the impossibility of trying to get both quick responses and responses that make sense to those who must administer and provide services at the State level, I would be happy to look at the specific situation. But more than that, we need to look at the whole organization and what we are doing.

Senator PACKWOOD. My guess is it probably is a problem with more States than Oregon because this is not like the Oregon Medicaid Waiver. And many States have this home health waiver.

Third, and I know there is some interest from some people on this committee, what do you think about taking Social Security out from your Department and making it an independent agency?

Dr. SHALALA. Well, Senator, I am not anxious to lose anything before I am confirmed. [Laughter.]

And as a political scientist, I know the arguments that every once in awhile when you are in a large complex institution splitting

out an organization to give it more attention. To perhaps elevate the quality and the security of the leadership over a period of time is often useful.

There is not a lot of evidence though that you do not sometimes end up putting it back into the organization.

Let me simply say this, I know a number of you are supportive of this, but it also reflects the sort of giving up on the ability of the Secretary of HHS to provide the leadership, the quality of the personnel, and the attention to that very important agency.

And second, my concern about splitting it out is at the point in which we would like to do a health care reform package and a welfare reform package.

When we need to integrate services better and think through the way in which we provide services for all kinds of Americans, I am reluctant to support something that would spin off a major piece and a major activity. But I am completely sympathetic to the disability community, the issues involved in the inability of the Commissioner of Social Security seemingly to deal with the backlog kinds of questions and to the other issues of leadership that so many of you have raised, given your concerns about that program.

Senator PACKWOOD. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Dr. Shalala, I want to begin by saying I am very impressed with you, with your energy, your creativity, and your dedication. And I wish you very well.

Dr. SHALALA. Thank you.

Senator BAUCUS. My basic point concerns the comprehensiveness of a new national health care policy in America.

You mentioned earlier about the fragmentation programs. We all know them. You said the President-elect has given you an earful about some of the problems at HCFA. We have heard them, too, on this panel. It is a major problem.

But with respect to the comprehensive nature of new health care policy in our country, I would like to focus a little bit on rural health care.

As you well know, the basic national problem is cost. In rural America, it is something else. There is no health care. There are no doctors. There are no hospitals.

It is not the cost issue, it is an access issue. Even when those folks have insurance, they just do not have access to health care.

It is particularly acute in my State of Montana. I must say, it is the rural nature of the high-plain States, the western States, not the coastal States, but the high-plain and western States. It is much more rural than is commonly perceived in the mid-western United States or the eastern United States.

For example, I figured out in Wisconsin, you have a population density of about 91 people per square mile. In my State, it is about four. And about 20 percent of your hospitals have fewer than 50 beds. In my State, half of our hospitals have fewer than 50 beds.

Half of our counties in my State of Montana do not have doctors who deliver babies. Six out of 56 counties who have no doctors whatsoever.

So I would like you to address how you will include rural health care in national health care reform. And when you answer the question, I would like for you to touch upon elevating the Director of the Office of Rural Health Policy, an office which I initiated back in 1987, to the status of Under-Secretary.

Dr. SHALALA. Senator, I indicated to you that I would look at the issue of the Office of Rural Health Policy, but even in a more mainstreamed way in my statement, I said that rural interests had to be represented at the table.

And one of the important things that you pointed out is that there are different rural interests, that the Wisconsin rural experience is different than Montana, and that the people that represent rural interests have to be sophisticated enough to recognize the differences as we design a health care reform system.

I share with you the concern that we not do with new health reform system what happened with the last Medicare reform, which was one size fits all, because it will not work either for the people who live in rural areas of Wisconsin or in Montana.

There are not only personnel issues. And there have been public suggestions, like the National Health Corps obviously and other kinds of support for rural health care centers, but more importantly, we have designed a system that, of course, pays rural health care providers less.

We have a system in this country that makes it very difficult for rural health care providers to get access to capital. Some people have suggested that they are redlined because they cannot build clinics or get support in terms of borrowing.

At the beginning of this week, actually in Wisconsin, rural health care providers from across the country came together to talk about how rural health will fit within managed care and tried to be creative.

So the organizations that are envisioned under managed care are not the only alternative.

Senator BAUCUS. Well, I appreciate that. It is true that one size cannot fit all, but it is also true that we cannot forget the various sizes. That is my main point here.

Dr. SHALALA. Yes.

Senator BAUCUS. Because as we address national health care, there is a big tendency to have just a national program and forget that there are parts of this country that differ greatly from the national average.

Another aspect that we need to address is the so-called opt-out for large businesses. I strongly encourage you and the Department and the administration that in developing national health care reform, treat all companies alike with respect to the degree to which they participate in managed care or managed competition. Do not allow large companies to opt out of the system. This would mean that small business employers would be treated differently than large business employers. Once we start going down the road where big business can opt out, we are going to have a two-tier system or multi-tier system.

My strong advice to all is that we not go down that road. We are not going to have this opportunity again for major health care reform in America until say, 10 or 20 years from now.

If you do it right, you do it right the first time. We did not do it right the first time. That was a long time ago, but right now, we have an opportunity in 1993 and 1994, in this Congress to do it right. And I strongly urge you to devise a system and present a proposal to the Congress which includes all Americans.

Dr. SHALALA. Thank you, Senator.

Senator BAUCUS. Thank you.

Senator MOYNIHAN. Thank you, Senator.

[The prepared statement of Senator Baucus appears in the appendix.]

Senator MOYNIHAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I want to join in welcoming Dr. Shalala here.

I am a little confused as to who is going to be in charge of the health care reform efforts in the new administration.

The problem as I have seen it over the past several years is that the Democrats have been in total charge of both Houses of the Congress for the past 6 years and have given splendid speeches on health care reform, but nothing has emerged.

Last year, no bill passed either House of Congress. Every leader of the Democrat Party, it seemed to me, had a different proposal. And the result was nothing happened.

So you have spoken about an AIDS czar and the drug czars. And the word "czar" is becoming quite popular.

Dr. SHALALA. I prefer czarina.

Senator CHAFEE. Czarina. [Laughter.]

Well, the USSR is gone. We are back to the old days. [Laughter.]

You are going to be a player in this obviously. However, I noticed by the Washington Post today that a Rhode Islander, Ira Magaziner, is going to be, it says, "in charge of health care policy within the White House."

I understand that others, the President-elect, has indicated that he is going to be in charge of many of these programs. Could you give me a little information here and help me along? Who do we turn to?

Dr. SHALALA. Senator, in this case, I think, if there was going to be czar, it would be the President of the United States.

We intend to put a team together. There already has been a team of policy analysts working on this issue. I expect the White House to have a small staff. The White House has always had someone working on health issues. So that is not unusual.

There will be a major effort at the Department of Health and Human Services, and OMB will be involved in the process. But, the team will reflect, I think, the more non-hierarchial approach of this administration and of the way that the new President-elect likes to work.

We will do the same thing on welfare reform. Where we have major issues, we are going to try to reduce the amount of turf fighting between departments, to get everybody at the table, to get consensus on what the outline of the work is going to be, and then to provide the leadership.

There should be no question in your mind that HHS is going to be the major player in health care reform. We have the analytical capacity. We will have the major leaders in health care and health

care managers in important positions in the Department, but we see ourselves as a member of a team, not as hierarchical as perhaps people have worked in the past.

Senator CHAFEE. So if we call you up, we can get some information on the subject?

Dr. SHALALA. Yes, sir.

Senator CHAFEE. Good.

Now, you have indicted great concern over health care. And as the chairman pointed out, a good deal of your statement was devoted to that. I would like to ask for your views. And I will tell you where I come from. As you may know, I am especially concerned about the slaughter that is resulting from the total lack of control in most instances over handguns in the United States of America. And it is not just the deaths, but it is the terrible wounds that are coming from it. And you have indicated concern.

The chairman indicated that the largest killer of black males from the age of 15 to 24 is handguns. So it is a terrible thing that is occurring in our society.

I personally believe they all ought to be banned: No production, no sale, no ownership. There are 67 million handguns now in America with 2 to 3 million being added every year.

And you saw what recently happened in New York: The principal of a school goes to look for a youngster who was not in school that day and was killed in a cross-fire from handguns.

So my question to you is, what are your views on handguns?

As you know, there are a variety of options. My proposal obviously is the sternest: Ban them, except for police officers, army, military, and certain licensees, handgun shooting groups where the guns are under total control of an entity that can control it. And then, you get to the Brady bill and so forth.

What are your views on that? What would you recommend to the President-elect on this?

Dr. SHALALA. Senator, there is a national tragedy going on out there, not only a school principal in New York, but children being shot in random shooting incidents where they are caught in a drug-related activity.

And I share your deep concern about the implications of handguns being easy to obtain and who in the end are the victims.

The President-elect has indicated that he will sign the Brady bill if it is brought to him. Beyond that, we have not looked carefully either at your bill or any enhancements of that, but I would be happy to do that and to discuss this issue with you over time.

My guess is that the lead will be the Attorney General, but you could be assured that these issues affect the health and the welfare of Americans. I very much want to be part of that discussion in this administration.

Senator CHAFEE. Well, thank you very much doctor.

And let me say, it will not earn you universal applause from all across the Nation if you do this. There is a solid group out there that is opposed to this, but in my judgment, we just cannot continue to overlook it anymore.

And you cannot talk of health care without talking about some of these societal factors that are occurring that make us different

from Canada, for example, the United Kingdom, or Germany. This being an instance of it.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator.

If I could just say of Senator Chafee that I share his views entirely with a slightly different perspective which is to say that guns do not kill people, bullets do.

We have 60 million. We are a gun saturated society. We have 60 million handguns. We have two centuries of supply. We have 4 years' supply of ammunition. And it is all run out of the Bureau of Alcohol, Tobacco and Firearms.

I will point out, we appointed a czar who got rid of the drug program. If you had a czarina on this, you might do something, but, in fact, the Federal Government does nothing.

If I could say again, when we began this hearing on Tuesday with Senator Bentsen, I cited what was that morning a column by Mary McGrory about truth in budgeting.

This committee is going to be very serious about truth in campaign promising. The social disorganization that Senator Chafee spoke about is at the heart of the welfare question.

The present proposal on health insurance came out that we are spending too much money on health care. We are not spending too much money on children. We are spending to little, and the President-elect made a promise to change it all. We do not hear that promise coming through, but that may be a matter of time.

Senator Riegle.

Senator RIEGLE. Thank you very much, Mr. Chairman.

Let me say, I think we have had too many czars and not enough czarinas. And so I particularly welcome this nomination. And I strongly support it.

I just want to make a comment as a lead-in to a question on health care reform. I head the Finance Subcommittee on Health for Families and the Uninsured.

And over a period of time, we have developed a major health care proposal, Senator Rockefeller and I, Senator Kennedy, Mitchell, and others. And I have conducted some 34 hearings on this issue.

And in reference to an earlier comment, the question by Senator Chafee, we had here in the Senate a bipartisan working group which I headed for some time, where we tried over many long months to forge a consensus on basic principles as to how we would reform the health care system.

We achieved that consensus. And we then presented that to the Bush White House. And the signal came back very strongly that they were not interested in moving on that issue in any comprehensive way at that time.

So I finally went down to see the President. He is an old friend from the days that we served together in the House. And I told him of our work and asked him if we couldn't move ahead then at that time on health care reform.

He asked me to go and see Dr. Sullivan, which I did, but nothing came of it. I think maybe they thought they might do it in a second term, but the problem, of course, has not waited for that. And there will not be a second term, I think, in part due to a failure to respond to these kinds of issues.

Having said that, I am greatly concerned about how long it is going to take us now, the new administration, to really get a major health care reform proposal on the table and to bring it here to this committee and to the Labor and Human Resources Committee and to move it on through.

As you know, in the campaign, President-elect Clinton said that he hoped to have a plan on the table within 100 days. And I heard him say that in places where we were present together.

I knew that was an ambitious statement in the light of Senator Moynihan's comment about campaign comments and such.

I do not think that we have a moment to lose. I think we are going to need all the time after the proposal is on the table to get this done. And so I have two questions for you in this area.

What is your expectation as you sit here today as to when that proposal will be ready for presentation to us? And do you have a timetable in mind thereafter in terms of when we will undertake to get it enacted?

Do you see getting it enacted this year, some time in the next 2 years? What does the tentative timetable look like?

Dr. SHALALA. Senator, thank you.

I cannot do anything but repeat what the President-elect has said already. And he has not backed down from his interest in getting a major proposal up here.

I think the difference which I might point out is what you said, and that is that we have a highly health-literate Congress, this committee in particular. And your counterparts over in the House have had very sophisticated proposals themselves.

There are many Members of Congress represented here who understand all the issues involved. So it is not an education effort. In many ways, it is already done because the Congress and the leadership of the Congress have already done it.

We have a long way to go in terms of educating the public, although there is a sense out there that there is a crisis. And people understand that, but the differences between the plans and the impact on people it will take some education.

I have no reason to believe that the President-elect of the United States intends to back down on his commitment to move forward with a health care reform plan.

I cannot tell you the timetable because we all have not had a chance with our legislative people to sit down and lay out when we are going to have the pieces done.

And frankly Senator, to be fair to us because we are not in the Department, we need the actuaries, the access to the computers there, a set of things we have to do in terms of the analysis so that our numbers hold up, not only with you, but with the Congressional Budget Office. So we can answer the myriad of questions that you will have about the fiscal impact and controls on the proposal.

It is my intention to hit the ground running when I arrive, to have that team in place the first week that I am there and to actually pull some temporary positions so that we can make quick appointments and access the Department's enormous analytical capacity.

Senator RIEGLE. Are you in charge of putting the health care package together?

Dr. SHALALA. Well, again, I described the package. I certainly will be involved significantly because the Department has the capacity to do the pieces. What I am trying to avoid is to say the final decisions are mine as opposed to the President-elect of the United States.

Senator RIEGLE. No. I understand. I want to know who is in charge of the work process. Has that decision been made? Has that assignment been given to you or anyone else?

Dr. SHALALA. We have not worked it through, but, Senator, my colleagues and I have not even asked that question.

At OMB and HHS, the new leaders have already talked at some length about how we are going to organize it. When the President-elect appoints his new person, I will be, of course, working with that person.

There was a meeting earlier this week to discuss some options and proposals. HHS, OMB, and the new White House people were represented.

When I say team, it means that we are going to do what we have the capacity to do. And HHS has the capacity to do the analysis and to lay out options and to be supportive of the President- elect.

Senator RIEGLE. Let me make a suggestion. I think he did not pick the 100 days out of thin air. I think he knew that he needed to get ahead of the curve in terms of this legislative year.

And if you look at the workload by committee, I mean, this committee will be dealing with trade issues. It is going to be dealing with the economic recovery package, the tax aspects of that, and the health care issue and other issues. And so there is an enormous just processing task to go on here.

I think if the administration falls measurably behind that 100-day goal, you are going to find yourself in a situation where moving this issue to the House and the Senate and getting it done this year, I mean, getting health care reform enacted in 1993 is going to become very difficult.

I think the goal should be to get that done in 1993, not in 1994 or some other year. And I think you are tough enough and enough of a person that really knows how to fit the pieces together that when there is a clear sense for the timetable, I think if anybody can march this team down the field against deadlines, you are probably the person that can do it.

I do not think that we should kid ourselves about what will happen if we start to fall behind that time curve. And I sense some of that already, partly because it is not clear exactly who is in charge on this issue. And I do not think that that ought to stay up in the air very much longer.

On immunization, I want to thank you for the emphasis you have given that because getting our preschool youngsters immunized, I think, is an urgent matter, and something we can do. It saves us money. It saves a lot of hardship.

We have had the measles problem and other problems. We are way behind other countries in doing this. I know you said that will be a top priority. I want to help you get that done.

Finally, on Social Security; is it your belief that the Social Security Trust Funds in some fashion today are contributing to the Federal deficit?

Don't we have a surplus each year now in the Social Security accounts for retirement of multiple, tens of billions of dollars? And, in fact, Social Security payments are not adding five cents to the Federal deficit, are they?

Dr. SHALALA. No, Senator.

Senator RIEGLE. It is very important that that be on the record because there are people around who would like to take, by going and attacking the cost of living adjustments on Social Security—which is not causing the deficit problem—to avoid having to deal with the issues that are causing the deficit problem.

And I would hope that we would see a very strong, not just a defensive Social Security, but of the administrative machinery which has been stripped down and is not working properly today, to be able to take and support Social Security properly.

Senator MOYNIHAN. The chair hears a tinkle from the other side. For the record, the Social Security Trust Fund surplus in the coming fiscal year will be $63 billion.

Now, along with Senator Riegle and Senator Rockefeller, there is no more respected authority—and I speak carefully—on this committee or in the Nation on health care than Senator Durenberger from Minnesota.

Sir, you have extra time.

Senator DURENBERGER. Thank you, Mr. Chairman.

Dr. Shalala, I join all of my colleagues in welcoming you to the Finance Committee and to Washington. And I just sat here and smiled about all the questions, the typical Washington questions you are getting about, who is going to be in charge of health care?

And as of this morning, the line gets longer in front of Ira Magaziner's office, wherever that is, and it gets shorter in front of somebody else's office. It is a curious way in which this town works.

The other side of that which is really curious, I read a study somewhere in the 1980's about how much time we take to think. In 1960——

Senator MOYNIHAN. I believe the word should be deliberate.

Senator DURENBERGER. Deliberate.

Senator MOYNIHAN. Think might be overreaching. [Laughter.]

Senator DURENBERGER. In the 1960's, they were thinking. And apparently, in the 1980's, we have taken to deliberating because the study shows that in the 1960's, the average member of Congress took at least a day a week to think. By the early 1980's, that had shrunk to 11 minutes. [Laughter.]

God only knows where it is today.

Anyway, I welcome you to Washington.

Dr. SHALALA. Thank you.

Senator DURENBERGER. I know we will be seeing a lot of each other in the next few years. As the chairman has already pointed out, the committee has jurisdiction over many issues that are central to the agency from income security, social insurance tax policy, and health care.

From what I know of you from our brief meeting last week, I am sure that our relationship is going to be extremely productive.

The hard truth is we have a lot of work to do in the area of health and human services. And we are not going to spend much time on ceremony and hopefully not on partisanship either.

Your challenge is enormous. I envy you. And I cannot resist offering you a little advice. Since you said we are health literate, I am going to give you a little advice.

HHS has, like topse has, "just growed." From its beginnings of the Social Security Administration in the 1930's to the 1950's when the administration was transferred to the new Department of Health, Education and Welfare and then expanded to include the consolidated Public Health Service, Medicare and Medicaid programs in the 1960's.

In 1979, HHS was born when Education became a separate Department. Then, we loaded HHS down with grant programs. From 1960 to 1980, the grant programs almost tripled, reaching about 500.

In 1981, HHS administered over 160 separate programs for health. And Federal grant funding levels grew at an average annual rate of 13 percent annually between 1960 and 1980.

It went from something like $7 billion that was ground out by our "thinking" predecessors a year to about $128 billion. And we ain't seen nothing yet.

So this is the rich history of constantly shifting responsibilities, but there is one immutable fact: HHS is constantly expanding.

Unfortunately, even as its scope of responsibility grows, the health of Americans is eroding. We have all heard the numbers. Homicide is now the second leading cause of death among 15 to 24 year-olds.

I will not try to be a pathologist here today. Bullets do kill. Guns do kill, but it is the health of the people behind them that I am talking about.

You will say 16 to 19 year olds have the highest victimization for rape, robbery, and assault. Twenty thousand Americans die each year from violent assaults. In 1991, 280,000 pregnant women were engaged in substance abuse.

We face spreading health problems stemming from poverty, poor education, lack of access to care, housing, the environment, all that sort of thing that would prevent tuberculosis, that would prevent the spread of AIDS, and that would prevent a lot of other scourges.

The chairman has said the focus of the Department seems to have narrowed to health. And what I heard in your statement is that you are trying to expand that definition of health, but my advice to you is to pay serious attention to your role.

Your reputation is as a manager. And you are going to need every ounce of managerial skill that you can muster. This is a lot bigger than putting the better Badger team in the stadium.

This is a Department of 134,000 employees. It is 40 percent of total Federal spending. It is the third largest budget in the world after the U.S. and Japan.

That in itself is an incredible management challenge, but it is my impression which is shared by many of our friends in Wisconsin, it is reflected in each of the introductions that you have received

here today that you have the capacity to lead. And we both know there is a difference.

You must decide whether you are going to be the CEO of massive bureaucracy or if you are going to be a health leader.

You said it. We ought to replace the existing system with a better system. And I urge you to take more than the 11 minutes a week that they are going to allow you to lead. Leadership requires vision. Vision requires breadth. And I urge you to think broadly.

If HHS is to be the people's Department, it must serve the whole person, not just pump out programs that create mandates for communities and do not help the people they are intended to serve. Just remember, people, not programs.

Breadth does not mean more programs. Let us stop assuming that every social problem requires a Federal solution.

HHS may be struggling and failing precisely because it is too big and too cumbersome and too far removed from the diverse problems that we see every day in our communities, but just because a problem is commonly experienced in America does not make it a Federal responsibility.

All of that talk in your statement is not just you and me and the chairman and HHS. It is a lot of little people out there in small towns in Wisconsin, bigger cities, and so forth.

Remember the States from whence you come. Some of our best thinking is coming from the States these days. President-elect Clinton knows this. He has been a leader among the Governors. You know this better than most because of your commitment to the people of Wisconsin, not just to the institution you serve.

Minnesota and Wisconsin have always been leaders among States with progressive thinking and creative solutions to problems. We in Minnesota and Wisconsin are always trying to find a better way to do things.

As David Broeder pointed out yesterday in his column, "Designing a swap of Federal and State responsibilities involves hard choices and careful choices, but today it is more critical than ever before."

No manager can get HHS to be more productive, to do better unless it is tackling appropriate tasks. Work with the new Deputy OMB Director, Alice Rivlen. She understands the federalism issues that we tend to overlook.

Once we determine what roles the Federal Government, the States, communities, and individuals should play in improving health, then you will need to reinvent your agency.

You will need to redesign the structures and the programs and the approaches. And you are going to need to be more creative, more productive, and inventive. And from what I can tell, you are all three.

And you will have to bring the Congress along. The Labor Committee which you are visiting tomorrow and on which I am pleased to serve has been busy for decades pumping out categorical grant programs.

Help us stop making demands on creaky old structures that cannot deliver health care. You cannot motivate your people to work hard on programs and policies that simply cannot solve the health

problems of America because we have not defined them broadly enough.

So as I vote for your confirmation, I send you my best wishes and a few words of wisdom. Be a health leader. Be bold. Be innovative. Challenge us to reinvent our vision of health in America. Then, use your managerial skills to lead HHS into the 21 century.

Senator MOYNIHAN. Would Dr. Shalala wish to respond to that question? [Laughter.]

Dr. SHALALA. It is a very thoughtful statement that I think is important here. I told Senator Breaux that I had worked early in my career with Secretary Moon Landreau, the great Mayor of New Orleans.

He used to say that everybody thought that the fun in this town was creating the policies and that we had gathered together the best policy analysts in the world and attracted people up to Washington.

And we would write these great policies. And we always forgot about the implementation. We would hire these brilliant people. And we would forget about what kind of structures had to deliver the services.

We would get the geniuses from the great universities of America and bright savvy secretaries and forgot about the average Joe who had to administer the programs or fill out the forms, and more importantly, never thought through whether the structures themselves required changes or whether we could work with teams as opposed to hierarchical organizations, whether it really was possible to understand that the names put on agencies may not be appropriate for the problems that we now face.

And all I can say to you, Senator, is that those are precisely the kinds of issues that many of you think that we ought to address. And frankly, I find that kind of thing just plain fun.

Senator MOYNIHAN. Thank you.

Senator Breaux, you come from Landrieu country. Why don't you carry on here?

Senator BREAUX. Well, sitting between these two titans in the Senate, Mr. Chairman, I do not think I have a microphone. They will not give me one.

Senator MOYNIHAN. If Senator Riegle would move to the left. [Laughter.]

Dr. SHALALA. Senator, we have had czars, czarinas, and high priestesses. And now, titans.

Senator BREAUX. Titans of the Senate.

Congratulations, doctor. We are delighted to have you before the committee.

You mentioned Moon Landrieu. The fact that you survived 4 years working with Moon is an outstanding achievement. [Laughter.]

He is a good friend, but he is a tough leader. And I know that that training that you received in that period as Assistant Secretary at HUD is going to serve you well over at the Department of Health and Human Services.

It is a tough job. And I think you are the type of tough woman that can handle it. And it is going to be a real challenge. And I look forward to working with you.

We have mentioned a couple of times that Ira Magaziner was noted in the paper as being put in charge of health care policy on the White House domestic policy staff.

And you point out how it is going to be a joint effort in coming up with a policy. I am sure that is how it is going to work.

The article also pointed out that Magaziner is given credit at least in persuading candidate Bill Clinton to move towards the support of a managed competition approach to health care reform.

Senator Boren and I introduced a managed competition plan in the Senate last year and hope to continue with that type of market-oriented approach in this Congress as well.

And what I want to ask you is, not whether you support it or not, but if you have had a chance to think through that concept. And do you feel, if you have, whether managed competition has the ability to contain medical costs without caps or some type of price restrictions in addition to that?

Dr. SHALALA. Yes, Senator, I have looked at the outlines of the President-elect's proposal as he talked about them during the campaign. And he changed some of his ideas as he went along, as you well know.

I think what we are talking about is managed competition with something called a global or national budget so there are some additional restraints put on the system to keep health care costs down.

As we work through the details and look at the implementing aspects, we have to assure ourselves that we are not doing what we clearly have been doing in the current system, and that is putting all sorts of controls on Medicaid and Medicare and simply shifting the cost someplace else.

So I think that the overall budget is very important as part of the managed competition. And I know some of the people in managed competition do not like it very much, but we are going to have to look at places where we can make sure that we double check the cost control element.

So I want to see how that all works together as we work through the details. I am sure that as we do the analysis and look at the impacts and simulate them, we may have a better sense of that.

Senator BREAUX. Is there any type of a ballpark figure from a timing standpoint as to when a health care proposal may be ready?

We asked our colleague in the Senate, Senator Bentsen, about timing perhaps for an economic recovery package.

I know two priorities of the administration, it seems, will be an economic proposal and a health care proposal. Have you all had discussions as to what type of a timeframe we are looking for a health care package to be ready for the Congress?

Are we talking about the first quarter of this year, the first 100 days? Do you have any kind of instructions to those of you who will be working on it that you would like to have this done by a certain period of time?

Dr. SHALALA. I believe that the President-elect has said to us that he wanted it yesterday. And I have no reason to believe that we are not going to walk into the Department, hit the ground running, get access to the analytical capacity that we need, and fill in the details.

The difficulty now is that we obviously have been working on the outlines of a proposal as reported in the press, but again, your sophistication up here leads me to make certain that when we come up, we can answer questions, that we have information which is backed-up by analytical work and have numbers that are good enough for CBO and for all of you to find them acceptable. So it really is the next stage of analytical effort.

Senator MOYNIHAN. If Senator Breaux would let me just take a moment of his time to say to you, Dr. Shalala, that you do not have to satisfy the Congressional Budget Office. You have to satisfy this committee. They work for us.

Senator Breaux.

Senator BREAUX. I am glad I yielded.

Dr. SHALALA. I apologize, Senator.

Senator BREAUX. We mentioned Medicare and Medicaid just a minute ago. Let me ask you, have you had any time to think out the question of whether Congress and whether the administration should recommend doing with Medicare what we have done with Social Security, that is, to increase the retirement age by the year 2022 by 24 months to the age of 67? In the year 2022, it would be 67 years of age.

Studies coming from HHS have indicated the billions that this would save. That is a social question. It is a political question as well as an actuarial question. Do you have any thoughts on that proposal in general?

Dr. SHALALA. I do not, Senator, at this time. As you have indicated, it is a social, it is a political, and it is an actuarial question. And we will have to look at it.

I am not sure that the 65 was set—Senator Moynihan probably knows—with rigorous data at the time.

Senator MOYNIHAN. It was Bismarck's figure.

Dr. SHALALA. That is right.

Senator MOYNIHAN. And Dr. Widdy accepted it, Dr. Widdy of the University of Wisconsin. [Laughter.]

Dr. SHALALA. Yes. Exactly. Edwin Widdy was a rigorous economist, but I am not sure what data he had at the time.

So we will look at that, Senator, because obviously, there have been changes in people's lives, in their lifestyles, in their work habits. And we certainly should look at that issue, but we have no decision at this time.

Senator BREAUX. One final point. We mentioned about your position in your previous life which you had done some outstanding work. And the question of welfare reform is one area that you are well aware of.

President-elect Clinton has talked about welfare being made temporary, limited to a 2-year period, after which able-bodied people will be moved towards work in the private sector or in the public sector.

Do you have any concerns about that type of a goal being accomplished? Or how do you feel about that in general as a concept?

Dr. SHALALA. I think it is a good concept, Senator. I think it builds on some of things that Congress has done already to begin to change the way we think about these programs back to what we

expected in the first place—a transitional program as opposed to a program in which people stayed on for a very long period of time.

There are lots of questions to be answered, particularly on the job component of the proposals. And we must carefully work our way through those issues.

Senator MOYNIHAN. Thank you, Senator Breaux.

I should acknowledge, since I mentioned those titans to your left and to your right, you are titanic yourself, sir. [Laughter.]

The first managed competition bill to be introduced on health care in the Congress was by Senator Breaux and Senator Boren. And that sets a standard.

Senator Packwood would ask me to yield for unanimous consent.

Senator PACKWOOD. Doctor, I have a question from Senator Hatfield relating to the National Museum of Health and Medicine which he would like a written answer to prior to confirmation. I will get it to you.

Thank you.

Dr. SHALALA. All right.

Senator MOYNIHAN. Senator Rockefeller who was the chairman, of course, of the Pepper Commission and who is the chairman of the Subcommittee on Health Care, one of the two such subcommittees in our Finance Committee, sir.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Dr. Shalala, you know from our private conversation that I enormously welcome your nomination as HHS Secretary. I am going to speak rapidly and ask questions rapidly and hope that you will respond rapidly because I do not know if we have a second round of 5 minutes for questions.

I think Dr. Sullivan could have been a great HHS Secretary, but he was taken over by OMB. He had no choice. And he did not fight back.

We had a confirmation hearing here for Senator Bentsen 2 days ago. And the entire sweep of this large committee table in Dirksen 106, every single question focused virtually entirely on the budget deficit.

Now, the budget deficit can sap our strength. It can demoralize our possibilities, and it can paralyze our willingness to take care of some of our urgent needs in this country.

Children are a part of that. Health care is a part of that. Welfare reform is a part of that. You have a lot in your shop that is a part of that.

I assume and moreover believe that you will fight hard for that and leave the budget deficit reduction up to others.

We will spend $100 billion more this year on health care than we spent last year. That amount of money could provide long-term care for all Americans and guarantee health coverage for all Americans. So that is my context.

You have indicated that the President-elect said he wanted his health care plans done yesterday. I hope not. And I also hope that you do not feel bound by this term called "100 days."

I think it is much more important to develop a health care plan inclusively, as I think is the President-elect's nature, to do it thoughtfully, and to do it working with the various interest groups so that when the product comes forward, it would have been mas-

saged, some of the difficulties worked through and not sprung loose from some private place.

If it is 120 days, it does not make any difference to me. When it comes out, it has to be the right kind of a bill. It also has to be a bill that works. And henceforth are two questions that worry me.

The way that the President-elect has presented the health care proposal to the American people in the campaign, there may not be coverage to people, of any substantial consequence, for awhile.

You cannot simply take global budgeting and managed competition, join them in a way which has not yet been done, and expect coverage to expand.

The only place that you can find scored savings in health care which you can use for new coverage is in the Medicare and Medicaid programs. The vast portion of health care cost savings will take place in the private sector.

If I, in my position, decide not, for example, to do a $150 procedure of some sort, the money that I do not spend, the cost that I contain, will go right back into my nice wallet. It will not go to the Federal Government. It will not go to covering anybody else.

There is a lot talk though about savings in Medicare and Medicaid. Well, I have problems with savings in both of those areas, but worse than that, there is talk about using the savings that do come from cost containment within Medicare and Medicaid for Federal budget deficit reduction.

I would assume and hope that you would oppose that. Am I right?

Dr. SHALALA. My understanding of the President-elect's position is that we will take those resources and use them to expand coverage.

Senator ROCKEFELLER. Second, it is in my judgment that the President-elect and his transition team is going to have to recommend the use of more Federal money, more Federal revenues in order to expand coverage at any time in the significant future.

I do not think that you can do it without new Federal revenues. That goes against the current need in Washington. If one is serious about covering people in this country, covering children, covering adults, covering migrants, covering people with AIDS, covering the homeless, then, one has to have new sources of Federal revenue. We can not achieve success in cost containment unless everyone is in the system.

I do not ask you to respond to that. I simply want you to know my very strong feelings about that.

Third, when we talked, you indicated that you were not a health care expert. You will be though soon. And it does not make any difference whether you are or not because it means you will approach this incredibly complex question, which makes arms control look simple, with an open mind and a free spirit. And I think that is incredibly important.

It is, however, also very important that you have around you a number of health care experts. I am not sure how you will decide on that evaluation.

Obviously, HCFA, the Public Health Service which comes under the Assistant Secretary for Health, the Assistant Secretary for Leg-

islation; there are a lot of places, that health care expertise is absolutely critical.

Who runs the Medicaid program really is important, and having health care expertise in those positions is important. Not necessarily every one of them, but in the great majority of them. Will you seek that?

Dr. SHALALA. Yes, sir.

Senator ROCKEFELLER. I agree with what Chairman Moynihan said. Frankly, I am picking up that for strategic and political reasons welfare reform is going to be put on the back burner. That is, a continuation of the welfare reform that Chairman Moynihan started several years ago. I hope that is not true.

President-elect Clinton was a member of the National Commission on Children which I chair. It still exists. We are having a national summit on April 1st and 2nd. You and I have talked about that.

In that report, we addressed income security, including expanding the EITC.

That can be done by simplification of forms. It would allow another two or three million poor working families to be eligible. And if we talk about a refundable tax credit, $25 billion of child support is out there, which is not being collected.

I would ask that you indicate to us that children's programs and welfare reform are not on the back burner, as far as you are concerned.

Dr. SHALALA. It is not, Senator, nor as far as the President-elect of the United States is concerned.

Senator ROCKEFELLER. Thank you.

Senator MOYNIHAN. Thank you, Senator Rockefeller.

I just hope, Dr. Shalala, that you will keep in mind what Senator Rockefeller just said. Next year, we will be spending $100 billion more on health care than we are spending this year. We will not be spending $100 billion more on those children.

The President-elect just did not put it in our platform and his acceptance speech. That is not what went on paid advertising in the close States in the closing weeks of the campaign, welfare as we know it will be no more.

To have it end up as one sentence in your statement was surprising. Senator Rockefeller spoke what is simply the truth about what is being said in the city.

I can say no more, but thank you, sir. We are looking forward, of course, to that commission hearing, and we will have hearings in the committee on it, don't you think, just to let you present it to us?

Senator ROCKEFELLER. I would be very happy about that.

Senator MOYNIHAN. Senators, the Republican leader is here. We welcome you, sir. Senator Dole, of course.

Senator DOLE. I apologize, Mr. Chairman. And I will not take time except to include in the record a statement.

And also if I might ask the nominee to submit in writing answers to questions. Hopefully, they are not difficult questions, but they are on Medicare and Medicaid and health care reform, drug pricing, and whether you believe there should be an independent agency for Social Security.

And if you could just submit those for the record, I would be happy.

[Senator Dole's prepared statement and questions appear in the appendix.]

Senator DOLE. And I might add, there were some alumni from Wisconsin in Kansas. And they have written nice things about you. And so I have read those carefully.

And I was also reminded as I left home this morning to remind you that as Secretary of Health and Human Services, you will also serve as a member on the Board of Governors of the American Red Cross. [Laughter.]

Dr. SHALALA. I know that, Senator. I look forward to working with them.

Senator DOLE. That is the real reason I am here to remind you of that.

Dr. SHALALA. Thank you very much, Senator.

Senator MOYNIHAN. Thank you, Senator Dole.

Senator Grassley.

Senator GRASSLEY. I thank you very much, Mr. Chairman.

I would like to put an opening statement in the record. And then, I will have some questions.

Senator MOYNIHAN. Of course, without objection.

[The prepared statement of Senator Grassley appears in the appendix.]

Senator GRASSLEY. President-elect Clinton has made a statement about a commitment to reduce administrative costs of his government bureaucracy by 3 percent. I believe that it will apply to your Department.

I do not know what 3 percent of your administrative costs would mean, but how do you foresee cutting this amount, whatever it is, from your Department's budget to meet that goal of the President-elect?

Dr. SHALALA. Well, Senator, I have spent most of my career taking 1 percent, 2 percent, 3 percent, 4 percent, 5 percent out of my budget.

I could describe to you a strategic planning process in which we identify those parts of the budget that are exempt and go after certain kinds of administrative costs and things that are not central to our mission. And it will be a discipline process that we work through when we fulfill that commitment.

Senator GRASSLEY. When I see your figures, you will be able to show us 3 percent of money now being spent in your Department that will not be spent for administrative costs?

Dr. SHALALA. Senator, I am not clear and I do not think that the new leaders of OMB have actually worked through precisely what they are talking about in regards to the 3 percent. There are obviously congressional mandates, programs passed by this committee, that are not in the discretionary part of the HHS budget.

Senator GRASSLEY. Well, whatever that 3 percent is, at least, can you assure me that it will not be smoke and mirrors? It will be real money.

Dr. SHALALA. No. It is going to be real money, Senator. And I would be happy also to tell you what the impact is going to be on service delivery in the Department at the same time.

Senator GRASSLEY. All right. Well, then, I should know that. And we should all know that. So thank you very much.

Your predecessor, Secretary Sullivan, followed a policy of expedited waiver approval for welfare reform projects that would be suggested to him and approved by the various States.

What is going to be your attitude towards that policy of expedited waivers for innovative welfare reform demonstrations when States ask for those waivers?

Dr. SHALALA. Sympathetic, Senator. The President-elect is a former Governor. He believes very strongly that the creative juices of the intergovernmental system have very much come out of States over the last decade.

And, indeed, there has been activity at the State level in relationship to both health and social welfare.

Simultaneously, I think that when we call something an experiment, we ought to make sure that we know what we are experimenting with, what kind of evaluation we are building in, and what are the criteria.

It seems to me that we want to learn some things out of these experiments. We need clear guidelines for that, but we also need a fair and quick process.

I think Secretary Sullivan has made some moves in that regard. I do want to review though issues that have to do with the nature of the evaluations and what we are trying to learn and what we are trying to experiment with.

Senator GRASSLEY. Do you know whether or not you have some disagreements as you know those now?

Dr. SHALALA. No. I do not. No.

Senator GRASSLEY. You do not know. All right.

Senator Baucus brought up the problems of health care in rural America. Thank you for discussing those with me when you were in my office.

As a follow-up and in direct relationship to the issue of a national health care plan, the point is often made to me in Iowa—and I am sure it is made in other rural States as well—that States need latitude to adopt any national plan to their circumstances.

How much State discretion will there be under the President-elect's reform proposal? I know it is going to be 100 days before the proposal is going to be presented to the Congress, but this issue must be discussed at some level now.

Dr. SHALALA. We have to have enough leeway so that the program works for the differences between our rural areas and the differences between various parts of the country.

Simultaneously, if it is going to be a national program, it has to have the same kind of fairness and basic benefits package. So we need to balance the flexibility against our desire to have a basic benefits package so that every American has access to that.

And when we come up with a plan, it must be able in my judgment, to answer the questions of those of you that represent States with rural areas that do not have as much access to health care, as well as understand that this Federal system of ours requires that we give States some flexibility so they can shape the program.

For us, we will shape it to be uniquely American. For the States, they must shape it to fit with their States programs.

Senator GRASSLEY. The Federal Government delivers health care through a number of programs, including CHAMPUS, and the VA.

You mentioned to me that a team of HHS, OMB, and White House representatives will be involved in the development of a national health care plan proposal. Has there been any involvement of the Veterans Administration and DOD? Are they seen as being a part of any national health care plan?

Dr. SHALALA. Senator, I certainly would see them as being involved. I do not actually know the answer to your question because it has been a campaign that has been putting it together.

And what I have been talking about is the new administration team. But from my previous experience in government, I think there will be a number of people at the table.

Senator GRASSLEY. I have some more questions that I will submit for answers in writing.

Senator MOYNIHAN. Fine. And if I could ask, Senators, that you do that by the end of the day. It will enable us to get a complete record because we are going to want to focus on that. We do not have a quorum today in that sense.

[Senator Grassley's questions appear in the appendix.]

Senator MOYNIHAN. I would just like to pursue a question that Senator Grassley just raised about this whole question of waivers under the new welfare program.

As you know, the Family Support Act was quite an achievement of federalism. We looked up and the 1980's were going by, and we found that in the atmosphere in Washington, nothing was happening, not for children.

Lo and behold, all over the country, Governors were doing things; and they were diverse. Governor Dukakis, a liberal Democratic in Massachusetts, was doing things very much like Governor Deukmejian, a conservative Republican in California.

They saw the same situations and began to think very much in terms of we have to make this a reciprocal relationship. It cannot be a permanent condition.

It is a Social Security program, but Frances Perkins would have briefly described AFDC as a program for widows. It was a widow's pension taken over at the middle of the Depression. She would have described a typical recipient as a West Virginia miner's widow.

Governor Clinton was Chairman of the Governor's Conference in the 1980's, and he could not have been more enthusiastic for what we began to do here. He asked a Republican. It was very bipartisan. Senator Dole could not have been more supportive, and Senator Packwood.

He asked Governor Castle of Delaware. I think Governor Castle has come into the House, has he not? I believe so. A Republican Governor to be the Governor's person near at hand.

And, of course, when President Reagan signed the legislation, he was very specific in thanking Governor Clinton.

Now, simultaneously, the Children's Defense Fund opposed that legislation. You heard Senator Rockefeller. I mean, we need to be open about this and intelligent about what we think. It will work out better that way.

Right now, we have this dilemma; and it is very real. For example, you mentioned waivers. At the press conference in which your appointment was announced, President-elect Clinton was very critical of Governor Thompson's welfare proposals in Wisconsin. He said that he would choose not to continue them. Would you have a view on that?

Dr. SHALALA. No, I would not, Senator. [Laughter.]

Senator MOYNIHAN. You do not. Well, you will have to.

Dr. SHALALA. I will. After I am confirmed, I will have to have an opinion on it.

As I pointed out to President-elect Clinton, I am on the Governor's payroll.

Senator MOYNIHAN. Well, when you change payrolls, you will perhaps change views?

Dr. SHALALA. Well, I think Governor Thompson knows that Wisconsin will get a fair hearing as will every other State on these issues.

You made a very important point, and that is, experimentation in the States bubbled up and finally led to national legislation.

Your own State, and my former State, of New York has a long tradition in social policy and health policy of generating wonderful proposals that eventually became national programs. And, in fact, if there is enough bubbling, it sort of forces the system to do that.

The question is, of course, whether these waivers are now being used because the current system is too rigid for some of the experimentation that wants to take place. And it is time to move on whether there is a genuine new idea that needs to be tested.

I think that we need clear rules. We need a sense of what we are going to learn. And we need to make decisions within a reasonable period of time, not simply on welfare waivers, but as you well know, I have had an earful of complaints about requests to HCFA and letters that have not been answered and other kinds of issues.

Senator MOYNIHAN. But might I just say that the term "Governor Thompson will get a fair hearing" smacks a little bit about "before the sentence is handed down."

We want to encourage such things. Governor Wilder had two subjects that were in his State message yesterday. Governor Wilder spoke to tuitions for the State of Virginia which has matters that might concern you.

He talked about handgun control which Senator Chafee had been talking about; and he talked about welfare. That is what he talked about, and he is going to be coming to you for waivers. I hope that he would get more than a fair hearing because the presumption is not that he has to explain why he wants to do something.

Dr. SHALALA. Senator, I think that perhaps my words were chosen without the kind of enthusiasm that you expected.

The President-elect believes in experimentation in the States. He has made it very clear that he sees the States as the great national laboratories of this country.

He clearly has an understanding of the capacity of States and the kind of progressive leadership of both the Republicans and Democrats, and he wants to be helpful and supportive as the States continue their role in experimentation.

In the context of his very strong views, we will review them within a more than reasonable period of time. If we could add something to a State in terms of suggesting that they do an evaluation so we can learn nationally, I think that that is fair. But that is my point.

Senator MOYNIHAN. And clearly, one of the strengths that Governor Clinton brings to the presidency is that he has been a Governor and has gotten the cases, those that come down from those czars, and someday, one of these days, a czarina. Who knows.

Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Dr. Shalala, when you were at the University of Wisconsin, of course, you still are, you have been active in trying to make it, as far as cigarettes go, a smoke-free university. Am I correct in that?

Dr. SHALALA. Yes, Senator.

Senator CHAFEE. Now, I am not actually sure what smoke-free means. What, there would be no smoking in the——

Dr. SHALALA. In the campus buildings.

Senator CHAFEE [continuing]. In the campus buildings.

Dr. SHALALA. Banning smoking from campus buildings.

Senator CHAFEE. And obviously that comes about because you believe that smoking is a tremendous detriment to good health?

Dr. SHALALA. Yes.

Senator CHAFEE. Are you supportive of a cigarette excise tax increase by the Federal Government?

Dr. SHALALA. Senator, I cannot answer that question. I am not sure of the President-elect's position on that, but on the general question of whether I am going to continue the one thing that we have had as bipartisan leadership on this issue. Secretaries of HHS, both Democrats and Republicans, have been consistent in seeing their educational role, as well as their leadership regulatory roles in these areas.

If I might add, sir, a more general question, and that is, will I provide leadership on this issue? Do I have experience? The answer is yes.

Senator CHAFEE. In your opening statement, you mentioned pressing forward with research in Parkinson's disease, Alzheimer's, and some others. That brings up the question of fetal tissue research. Would you be supportive of the use of fetal tissue for research?

Dr. SHALALA. Yes, Senator. The President-elect's position is that we should remove the ban and put in place obviously the same kinds of reviews and requirements maybe similar to the transplant reviews. It is the President- elect's position that we would remove the ban.

Senator CHAFEE. In the last administration, they became involved with a matter that I thought was regrettable, that being the so-called gag rule that was imposed in family planning clinics, governing what questions of a client could be answered.

The rules were that if the woman upon discovering that she was pregnant asked what her options were, starting from 1980 to 1988 throughout practically all of President Reagan's administration, the doctor or the personnel—when I say doctor, I am talking about the licensed practitioner, whoever it might be, a registered nurse,

nurse practitioner—could answer and, indeed, was required to answer, giving the woman her options.

That was changed or is in the process of being changed. It has not been implemented entirely. What are your views on the gag-rule? Are you familiar with this issue?

Dr. SHALALA. Yes, I am. And, Senator Chafee, the President-elect has indicated that he intends to remove the gag rule.

Senator CHAFEE. That can be done by executive order I believe?

Dr. SHALALA. I understand that.

Senator CHAFEE. This is a question a little more esoteric and one that perhaps has not come to your attention, but if you could make a note of it or have your staff do so, I would appreciate it.

Within the next few days, the current administration will issue regulations implementing the so-called CLIA, Clinical Laboratories Improvement Act.

And these regulations establish a special category of tests that are simple microscopic tests that will not be subject to the same requirements of other tests. This deals with clinical labs, as I mentioned. The regulations currently specify that these tests may be performed only by physicians.

Now, as you know, from your experience with the Children's Defense Fund and other activities, particularly in areas such as family planning clinics, they do not have physicians there frequently. The same is true for public health programs, community health centers, and so forth.

They rely on mid-level clinicians, such as nurse practitioners, certified nurses, midwives, and physician assistants. And the question to you is, would you support revising these regulations to allow mid-level medical personnel to perform these tests?

Now, I know this is coming at you cold. And you probably are not familiar with it, but I would be grateful if you could take a look at it because these regulations, I believe, will be quite harmful.

Sure, the doctors are for it, but I believe it will be quite harmful to a lot of clinics that currently cannot afford to have a full-time physician there.

Dr. SHALALA. I understand that, Senator. And we certainly will look into it.

Senator CHAFEE. A final question.

Senator MOYNIHAN. Would you like to submit that as a written question?

Senator CHAFEE. All right. I would be glad to do that.

[Senator Chafee's question appears in the appendix.]

Senator CHAFEE. Finally, in 1990, Senator Rockefeller and I were successful in establishing two capped entitlements under the Medicaid program, which allowed for community-based care for persons. The Rockefeller version was for the frail and elderly. And my category was to assist those with developmental disabilities.

I strongly support the expansion of these programs. Budgetary considerations will be important as always, but the question to you is, do you believe that the community is the most appropriate health care setting for these populations, the frail and elderly and, those with developmental disabilities?

Dr. SHALALA. Senator, I am supportive in general of community-based centers. I think that our system has alternatives built into

it, but you can be assured that I am supportive of community-based centers.

And, of course, there are always budget considerations, but certainly, we will have an opportunity to talk as we work through the budget.

Senator CHAFEE. Well, your State has been a leader in this area.

Dr. SHALALA. I am aware of that.

Senator CHAFEE. And you were talking about bubbling experimentation. And this is an instance of that.

Dr. SHALALA. Exactly.

Senator CHAFEE. And I very strongly believe that it is worthy of replicating on the national level.

Thank you. Congratulations.

Dr. SHALALA. Thank you.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, sir.

Out of consideration for our witness, the chair is going to suggest that this be the last round of questioning. Written questions can be submitted, of course. Everyone here will have one more chance.

Senator Pryor, you have not been able to ask questions at all yet.

Senator CHAFEE. Mr. Chairman, can I submit an opening statement for the record?

Senator MOYNIHAN. Would you please do so, sir.

[The prepared statement of Senator Chafee appears in the appendix.]

Senator PRYOR. Mr. Chairman, thank you for the courtesy.

I have had to go back and forth to the Agriculture Committee, which is considering the nomination of Congressman Espy. So I am jumping around a lot this morning. Thank you. I will be very brief.

Senator MOYNIHAN. No, sir. Don't be brief.

Senator PRYOR. I strongly support this nomination, Mr. Chairman and my colleagues. And I look forward to working closely with Dr. Shalala.

Dr. Shalala, I have been sort of wringing my hands and sort of screeching in the wilderness for the last several years about the high cost of prescription drugs.

I know that Senator Durenberger and others today have talked more globally about some of the matters under HHS and some of the areas under your jurisdiction.

The observation I would make now is more specific and it is one aspect of our health care delivery system. I have chastised the drug manufacturers in our country for raising their prices of drugs each year at three times the cost of inflation.

Now, yesterday, I was given the new statistics. The drug companies did not last year raise their prices at three times the cost of inflation. They raised their prices four times the cost of inflation.

And this, by the way, we must keep in mind is with their large tax breaks, research and development, the 936 tax break in Puerto Rico, and all of the other tax breaks that they receive. Prices are still increasing, not three times, but now at four times the cost of inflation.

One other area, and we are going to be talking about that during the next several months as we look at the overall health care, but

this is one component that I am interested in, many on the committee are concerned with.

The elderly consumer out there no longer can, in many instances, purchase the drugs that are being manufactured and discovered by our new technologies.

The second area is still in the pharmaceutical area. We have developed some drugs basically at NIH and other Federal facilities using Federal dollars, Federal workers, Federal scientists, paid for by the taxpayers.

And then suddenly, the drug companies or a drug company, I should say, will wind up with the patent and with the exclusive rights for these drugs.

AZT is an example. DDI is an example where basically, the Federal taxpayer has been a participant in developing these drugs and yet the drug companies get the patent. They get the exclusive rights to sell them.

And we see these costs of these drugs at an all-time high, no controls, no precautions about those who have to have these drugs to stay alive. I think that we need to look at that.

On February 24th, the Aging Committee is going to have a hearing just on that point. And we are going to invite you. If you cannot come, I hope someone from your Department could.

And the final concern, Mr. Chairman, relates to Social Security. The Social Security beneficiaries today are finding themselves, if they apply for disability, facing a backlog of cases by the end of this fiscal year that may surpass 1.1 million cases, if we are not careful.

Right now I understand, there are about 750,000 cases in backlog. And some of those people will be waiting 7 and 8 months before they can even get an initial response from the Social Security Administration as it relates to their disability benefits.

And I think this is a coming crisis for your Department and for the Social Security Administration. I hope you will be aware of it. I assume that you are. And I look forward to working with you on this matter and others as we proceed forward.

We look forward to working with you, Dr. Shalala. And I wish I had been here for the entire statement and your responses to the questions from my colleagues.

Dr. SHALALA. Thank you very much, Senator Pryor. You can be assured that we will look into all of those issues.

Senator PRYOR. Thank you.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, sir.

Senator Pryor has been tenacious as in all matters, but particularly on these two questions of drug pricing and of disability.

And as you will recall, in Martha Derthick's great book on the Social Security system, it worked well until the disability program came along. We have just never resolved it.

This committee and our Subcommittee on Social Security and Family Policy has held hearings, and Senator Pryor is absolutely right, that there are three-quarters of a million backlog in those cases.

We had some courageous persons in that Department, such as Pat Owens who in the end left as Commissioner of Disability.

There came a time in the 1980's when the U.S. attorneys would not defend the Government in cases where disability had been disallowed. I mean, it came to that, and it is continuing.

Senator Durenberger, you are next here.

Senator DURENBERGER. Mr. Chairman, thank you.

Thank you, Dr. Shalala, for your patience with all of us. And I have two questions that I need to ask. One is prompted by a response that I believe I heard you make to my dear colleague from West Virginia.

The question is sort of like clarification as to where we are going and what are our objectives in the new administration.

I think I understood you to say and I think at various times I have heard others speaking for the administration say that the health care reform objectives of the new administration are to use managed competition to get cost containment in the system and then to use the savings, I think I heard this, to expand coverage. Is that a simple statement of the objective?

Dr. SHALALA. Yes, Senator.

Senator DURENBERGER. I would like for you to help me understand a little bit about how in this big $850 billion system of ours it is possible to do those two things simultaneously.

We have been trying to do cost containment here through rate regulation which is implied in what I hear about global budgets and so forth as long as I have been in this committee.

And the cost increase just keeps going up. So my impression is managed competition grew out of the inability of cost suppression to deal with this kind of a marketplace.

In other words, we came along in 1983 with DRGs as a way to prospectively price hospital services and thus change the way they deliver hospital care.

But lo and behold, while we were decreasing charges to hospitals in general, increasing payments to some, particularly in the suburbs and things like that, reducing them in small towns and inner cities, the other side of this thing, the Part B, the medical side was off she went.

So now, we have something called RBRVs to try to push down on that side of it. And what Dr. Lee will tell you when you get to meet Dr. Phil Lee of the Physician Payment Review Commission is that what the doctors of America are doing in places like Florida and Washington, DC, not Madison, not Minneapolis, but along these high-priced corridors, when you tell them you are not going to get paid as much this year as last year, what are they doing? They are seeing people twice.

They are doing twice as many procedures in each visit. That is what you get when you try to use global budgets or fixed pricing mechanisms and at the same time, keep the markets going because the market is going to kill you in one way or another.

So I believe we have to do both of these things. I mean, I believe we have to get to universal access in this system. We have to be able to guarantee every American access to the same kind of health plans that we have or better.

And they should not have to worry about where they live or where they work as to whether or not they can afford to get it. I believe in that.

I also believe that managed competition is the only way to get there, but I need to understand a little bit better how in a short period of time you are going to be able to do both because we got a head start in Minnesota.

And we do not want anybody coming in there saying you cannot reward good hospitals with more business because they are on a fixed budget. You have decided, like Canada, we are going to have hospital budgets.

And there is only so much you are going to—last year you spent so much. Next year, you are going to spend so much more.

What is the point of using a market to send all of your business to the Mayo Clinic where they do things better than any place else, if the Mayo Clinic is operating on a fixed budget?

I need to ask you to see if you could help me understand. And this is probably an unfair question because you have not even taken office yet, but to help me understand a little bit about where those savings are going to come from and how they are going to get translated into more Medicaid money or long-term care money or all the money for the people that are getting shot in the streets and all the rest of that sort of thing.

Dr. SHALALA. Senator, I am not really sure I can answer that question with the level of detail you may want. Obviously, what you have described very thoughtfully and very carefully is what happens when you try to regulate certain parts of the system.

Senator DURENBERGER. Yes.

Dr. SHALALA. You push here. And it pops up here. We, the Senate, and this committee have made an enormous effort to figure out ways in which we could press on the system to keep costs down, to keep coverage, and to expand coverage where appropriate to families and children on other issues.

What we are finally down to is that we need something more comprehensive. And we are going to try to take the best of what we have learned, and that is, take the positive sides of competition and of the private sector to pool consumers and businesses into regional groups. These groups hopefully will be powerful bargaining agents that can get a lot of choices in terms of different kinds of health plans based on a basic package so that people will have some choices, but more importantly, they will have some power.

We are talking about empowering the consumer here. Simultaneously, the insurers obviously are going to be held accountable for cost and quality because people are going to have choices.

Our aim is to get a market system with choices and, therefore, to put pressure on lower costs, but also hopefully to get some quality at the same time.

On top of that, we are talking about a national budget of some kind or another which constrains the bids so that we have another piece that tries to hold it down.

The rest of the world has comprehensive systems. And, of course, those are systems unique to their own countries. And some people have asked me about some of those individual systems.

Now, what we obviously have done is combined some of the more regulatory aspects, though not the kind of micromanaging aspects, and put a public sector piece with our experience in the private sector to see whether it is going to work.

Beyond that in terms of detail, I cannot give it to you at this time, but, boy, we are going to have to come in here and explain how it all interacts.

I also concede that a lot of the savings are going to be on the private sector side. I mean, there is no question. And we should not be pretending that all these savings are going to be on the public sector side.

What the President-elect has said is, where there are savings on the public side, we will pool that into making sure that we start expanding coverage hopefully, from my point of view, beginning with families with children, but we are very committed to trying to do something other than an incremental approach.

And as I read this very distinguished committee, that is precisely what you would like to do, too.

Senator DURENBERGER. Mr. Chairman, I am going to submit my last question. It is on a subject that used to be a great political concern before it was usurped by the uninsured. Fifteen percent of Medicaid goes to dependent children; 13.5 percent of it goes to poor moms with dependent kids; and 69 percent of it is going into nursing home care. And I have an 86 year-old father living and an 80 year-old mother living.

And if my mother died tomorrow, I know my father would go to a nursing home, not because he medically needs it. He needs my mother more. And we are spending $86 a day for people like my father because we do not have a long-term care policy in this country.

So everybody on this committee at one time or another has been involved in trying to struggle with that issue. And my question will be around, where is the thinking of the new administration on that issue?

Senator MOYNIHAN. Of course, sir.

[Senator Durenberger's question appears in the appendix.]

Senator MOYNIHAN. Can I just make the point that when Wilbur Cohen of the University of Wisconsin had come down in 1964 and 1965 when we were working on Medicaid and Medicare, Wilbur would say that Medicare would cost us about $167 million, but it was also clearly understood that Medicaid was to be an adjunct to the Aid to Families with Dependent Children. But before our eyes, it has become a form of long-term care in nursing homes. That is exactly as you say.

And also to say, the only possible cloud that could come across your nomination if, in response to Senator Durenberger's first question, you would say, "Oh, sure, I can answer that because, of course, we do not have any answer."

He made the point. For our audience who may not be familiar with the term DRG, those are the initials for diagnostic related groups. In 1983, we determined that there are 476 ways you can get sick or be miserable. We properly said then, "This is how much you can be reimbursed for treating any one of these 476."

So we look up a decade later and my two colleagues here, or three, could certainly answer, I think it is a case of Medicare now reimbursing only about 90 percent of the cost of treatment that hospitals give.

So this has meant the pillow effect. The privately insured costs have gone up because in the end, the hospital bills are paid. Private insurance costs have gone up, so has the cost for employers, particularly small employers providing health care.

We had a good deal of talk about the uninsured in the last campaign. And in the manner of campaigns, we described this assumption that they are talking about the wretched of the earth.

Two-thirds of the medically uninsured are full-time workers and their families, which full- time workers very likely would have been insured 20 years ago before we started improving cost containment in Medicare.

Senator Rockefeller knows more about this than I do. I had better stop talking.

Senator Rockefeller, your last round, sir.

Senator ROCKEFELLER. Mr. Chairman, in fact, I do have questions, but I will submit them in writing.

[Senator Rockefeller's questions appear in the appendix.]

Senator ROCKEFELLER. I feel so strongly that Donna Shalala will do well, and I want so much for her to do well in this incredibly important position that frankly I just want to stay here until the end of the hearing.

And I will note that I was extremely pleased by what she said in response to Senator Durenberger that if she had her way, she would start with coverage of pregnant women and children.

Senator MOYNIHAN. That is very gracious of you.

I will take the Chairman's final question. It will be very brief, but very heartfelt. Senator Durenberger commented that the organization you now run began as the Federal Security Administration.

It began as that organization in the Roosevelt administration to run Social Security. And in the patterns of these things, what is new gets more attention than what is old. With the Federal Security agency, the synopsis worked moderately well when the event is long enough past.

The largest activity you have is Social Security. It is most of your budget and most of your employees, but they are out there in Baltimore. They do not get the attention they have deserved.

Senator Dole asked about an independent agency, going back to that independent status that it originally had. This committee has voted twice for such a bill. It may be that you will find it works best for you. I know you have an open mind.

The simple fact is that Social Security has been in place since 1935. Since 1940, we have been paying retirement benefits never a day late or a dollar short. And yet, a majority of non-retired adults do not think they will get Social Security when, "their time comes."

Now, if that is what they think about the Nation's social insurance system which they have been paying all their life, what do they think about the other things we do or say? [Laughter.]

Out of the Social Security Administration, there has been a kind of bureaucratic culture that says, "They will get it. It does not matter what they think. When the time comes, we will give them a pleasant surprise. The check will arrive."

system, gets a Canadian pension plan contributor statement, just as you get your life insurance statement.

We have that, but it was hell's own time in getting the Social Security Administration to go along with this. I finally have the legislation. In 1995, people over 60 once every year will get a statement from Social Security saying how much they contributed. By 1999, everyone will start getting it.

I am not sure the system will be there by 1999, the way we talk about entitlements. We talk about this as if it were something the Government gave you, not some money you gave the Government and are now getting back.

I would hope you might think of bringing in a leadership over there that would say, "Of course, we can tell Americans once a year what they have paid into Social Security, what they will get if they are disabled, what their survivor's benefits for their wife or husband would be, and about what they could expect at 65."

The largest cost of this thing is the stamp, but something says, "I do not want to do it. It is none of your business how much you have been paying into this system the last 40 years. We will tell you when the time comes if we can find your record." They will find the record, but who knows that if you have not seen it?

When you are 20, you will throw this thing away. When you are in your 30's, you will lose it. By the time you are in your 40's, you will find it in a desk drawer. You will look at it every once in awhile and say, now, how is that at 65? I will tell you what I will get at 65. At 65, I will get $1,075 a month, something like that. [Laughter.]

It started in 1943. And I have paid in $16.

Can you think of things like that, because it is the question of confidence that government should always be attentive to first? Do you believe us? Is our word good?

Dr. SHALALA. Senator, not only do I believe it, I practice it. And one of the problems when you get into government is that everybody gets so consumed by fire fighting.

Senator MOYNIHAN. Yes.

Dr. SHALALA. Handling crises, they forget their mission, who their customers are, and the need to communicate with the people that we serve and communicate with in a very clear way.

And I think your example of Social Security is exactly that kind of point, that there ought to be no reason, given the capacity that we have with computers for us to be able to communicate with the people that are going to get Social Security from 60 on.

I probably get a communication twice a year from the Department of Education's TIA pension system that gives me that level of detail. It is an appropriate request.

We ought to respond. Whether it can be responded to more quickly than what they have said to you, I do not know, but you can be assured that we are thinking like that, thinking about those kinds of communications, thinking about who our customers are and how we can be more responsive and communicate in a clearer manner. We want people to understand, not only that public officials stand up and say, "Yes, your Social Security will be there," but we keep them informed as to where their Social Security is as we are moving along.

but we keep them informed as to where their Social Security is as we are moving along.

I also have also promised another Senator, Senator Barbara Mukalski that I will make my first visit to Social Security. So I will be going out as soon as I am confirmed.

Senator MOYNIHAN. You will probably be the first Secretary ever to have gone.

Dr. SHALALA. I have to tell you, it has not only been Senator Mikalski that asked me to go out and visit, but my mother made clear that she thought that my highest priority——[Laughter]

Senator MOYNIHAN. That is a note. When your mother rises, this committee rises with respect.

And congratulations. There will be a vote on January 19. Thank you so much, Dr. Shalala.

Dr. SHALALA. Thank you, Senator. Thank you very much.

Senator MOYNIHAN. We look forward to an enormously productive career.

[Senator Daschle's questions and the prepared statement of Senator Hatch appear in the appendix.]

[Whereupon, the hearing was concluded at 12:30 p.m.]

APPENDIX

Additional Material Submitted

Prepared Statement of Senator Max Baucus

Thank you Mr. Chairman. And welcome Ms. Shalala.

I must say right from the beginning that I'm quite impressed with you and your background. You clearly have tremendous energy and dedication. And a real take-charge attitude which I think is terrific.

As an assistant secretary for the department of Housing and Urban Development, you initiated creative and effective programs so that women would receive fair treatment under federal housing policies.

As President of Hunter College and the University of Wisconsin, you again showed your talent for successfully running large institutions and making them more efficient and effective.

That's impressive. I think it's clear that you have the experience and the creativity to not only oversee, but also to improve the Department of Health and Human Services.

The new Secretary of Health and Human Services faces a difficult road ahead. Many experts believe our health care system is in crisis. Medicare and Medicaid costs are soaring, more and more working Americans are being priced out of the health care system, the U.S. has one of the lowest immunization rates among industrialized countries, and Americans living in rural areas have less and less access to health care.

NATIONAL HEALTH REFORM

I believe that our health system needs comprehensive reform. The new Secretary of HHS likely will play a large role in the crafting of national health reform legislation this year.

I share President-elect Clinton's goal to reform our health care system this Congress. I also support many of the same health reform concepts.

I am a strong supporter of controlling health costs by combining managed competition and global budgeting. We are the only industrialized country that fails to budget our health care spending. And this is a major reason why we spend so much more than other countries on health care even though our health statistics our lower.

However, I have two major concerns.

RURAL CONCERNS

First, I'm concerned about how rural areas, like Montana, will fare under comprehensive health reform. I hear a lot of talk about "managed competition." But what will happen in areas where there aren't any doctors to compete? Or if reimbursement rates are set too low so that needed rural hospitals are forced to close?

Rural areas face unique health care problems. It's not enough to increase the number of people with health insurance. National health reform must address the delivery and access problems faced in rural areas.

National health reform can be a tremendous improvement for rural areas if it's structured correctly. I urge you to pay close attention to rural health care needs as you move forward on health reform legislation.

NO OPT-OUT FOR LARGE BUSINESSES

I'm also concerned about setting up a different health insurance system for small businesses than for large businesses. If we are going to create a "managed competi-

tion" system, then our health reform plan should ultimately lead to everybody playing by the same rules. Large businesses should be as much a part of a "managed competition" system as smaller businesses.

This is the first time in decades that the government will have a chance to enact comprehensive health reform. What I'm saying is that we may not get another chance. So we should do it right *this* time.

PRESSING RURAL HEALTH NEEDS

But it's not just with national reform that I'm concerned about the treatment of rural areas. There are many pressing problems facing rural areas right now which could be alleviated through improved public policy.

According to the General Accounting Office many rural hospitals, which are the sole health providers in their area, will face financial problems from losing money on Medicare patients.

People living in rural areas are more likely to be uninsured than urban residents. And rural areas continue to face a desperate shortage of health professionals and resources.

In Montana the statistics are truly alarming. About 20 percent of Montanans have no health insurance. Eight of our 56 counties have no physician and almost half of our counties have no physician who will deliver a baby.

Federal policy can and should be targeted to alleviate these serious problems.

While we are all working together on national health reform, I will also be working on rural health care legislation to address these immediate health delivery problems in rural areas. I hope to work with you on these issues in the future.

CONCLUSION

Ms. Shalala, I'd like to conclude by saying that I'm pleased that President-elect Clinton choose you as Secretary of HHS. With your experience, energy, and creativity, I am sure you will make HHS more responsive to the needs of the American public.

I wish you well and look forward to working with you in the future.

PREPARED STATEMENT OF SENATOR JOHN H. CHAFEE

Thank you Mr. Chairman. I join with my colleagues in welcoming Dr. Shalala to the Finance Committee today. You have an impressive background which I believe will serve you well as Secretary of the Department of Health and Human Services. You have quite a task ahead of you as Congress and the Administration struggle to find a workable solution to the rising costs of health care and the increasing number of individuals without access to health care insurance.

As anyone who has delved into this issue knows, it is not possible to enact meaningful reform in our health care system without making difficult political decisions. Further, as we grapple with both health care and the deficit, we must also reevaluate existing entitlement programs including Medicare and Medicaid. It is an exciting time to be involved in health care. As this issue becomes increasingly important to American voters, however, one cannot help but feel that they are trying to navigate through a mine field in which one misstep not only can result in the untimely demise of a political career, but will also have a profound affect on millions of Americans for generations to come.

As we proceed down this road, I am pleased to know that you and I share the belief that we must invest in primary and preventive care services which vastly improve overall health status in this nation. As we develop a proposal with the ultimate goal of assuring that all men, women and children in this country have health insurance, we must not forget that insurance alone is not enough. We must develop a health care system that integrates insurance with our public health programs to assure that health care services are delivered appropriately to our nation's underserved populations.

I look forward to working with you.

PREPARED STATEMENT OF SENATOR BOB DOLE

Good morning, Dr. Shalala. It's a pleasure to join with my colleagues in welcoming you before this committee.

You have been nominated to serve in what has to be one of the toughest jobs in government. The department of health and human services oversees hundreds of

programs that are critically important to the health and welfare of virtually every American. As others will mention, the HHS 1992 budget was about $550 billion, or nearly 37% of the Federal Government's budget.

As we all know, health care reform was one of the most discussed about issues of 1992. And while there is no agreement on what type of reforms are needed, there does seem to be a consensus that the system can be improved.

Health care has long been an issue on top of my agenda, and my Republican colleagues and I are anxious to work with you and the president-elect. I do want to use this opportunity to say that if the Clinton administration wants to have bi-partisan support for a health care reform plan—and that's the only way that one will ever get passed—then they need to bring Republicans in at the take-off, and not just at the landing.

Making your way through the very complex issue of health care reform is just one of the many challenges awaiting you if you are confirmed. A social security system which seems to have lost the confidence of the American people . . . . The survival of welfare reform . . . safeguarding our nation's food and drug supply . . . the list of controversial issues goes on and on.

As you know, Dr. Shalala, your nomination has not been without controversy. some commentators have questioned your actions as chancellor of the University of Wisconsin-Madison. Others hoped for a nominee with more experience in the health area.

I welcome these hearings as an opportunity to learn more about your qualifications and your vision for the HHS.

I also want to mention that you do have a few fans in Kansas, as I received a couple of letters from University of Wisconsin alumni who are now Kansas residents, and who think you have done an excellent job for their alma mater.

One of these letters said, "She has been able to generate bipartisan support for the university and she has established good relationships with the business community . . ."

If you are confirmed, Dr. Shalala, it is my hope that you will maintain that ability to work in a bipartisan spirit, and that you will remember that noble-sounding government programs can end up hurting the business community, and putting Americans out of work.

In closing, let me add that before I left home this morning, I was asked to mention that as Secretary of Health and Human Services, you will also sit as a member of the board of governors of the American Red Cross.

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

First, I would like to welcome you and let you know that I enjoyed meeting you last week to discuss issues of mutual concern. There are a few issues I would like to raise at this time.

President-elect Clinton campaigned on the importance of welfare reform. Intended as a short-term assistance program to meet the basic needs of a family during a crisis, it has become a form of generational dependency that saps the creativity and ingenuity of our people. Many states, including Wisconsin, have taken the initiative to test innovative ideas through demonstration projects. Secretary Sullivan had an expedited waiver approval policy for welfare demonstration projects around the nation.

I favor welfare reform proposals that encourage young people to stay in school and get the basic skills they need to succeed in life. I also favor removal of the institutional penalties for marriage or work that have become so much a part of our current system. That is why I have worked to allow microenterprise as a means of encouraging independence in urban and rural America.

A microenterprise is any unincorporated trade or business enterprise which has 5 or fewer employees, of which one is the owner. Microenterprise makes particular sense in areas where employment opportunities are limited and self ownership may be the only alternative to unemployment.

The opportunity to start a small business while maintaining the "safety net" of public assistance is an incentive to encourage independence. Microenterprise provides self-esteem, satisfaction, and community development. Not only is microenterprise beneficial to welfare dependent individuals, it is equally important to the State and Federal governments. Practically speaking, it kills 2 birds with 1 stone . . . it gets people off of public assistance and onto the tax rolls.

The main goal is to make independence from public assistance a reasonable and attainable goal for those with the desire, motivation, and discipline to take this chal-

lenge. I look forward to working with you on this and other ideas which encourage independence and provide a means of attaining it.

Health care reform is going to be a tremendous challenge for this Administration and Congress. My advice to all following this debate is to be wary of the "one size fits all" solution—a solution that limits flexibility and choices for consumers, especially in rural America. We need to focus on reforming the financing of our system and how we deliver health care. I plan to view any health care reform proposal through a rural prism, to see how they come to grips with the unique problems facing rural communities.

PREPARED STATEMENT OF SENATOR ORRIN HATCH

Mr. Chairman, the nomination hearing for Secretary of Health and Human Services provides a unique opportunity for Dr. Shalala to outline her position on many of the critical issues that will face the new Secretary. Nomination hearings are often the first time nominees are able to offer comprehensive statements on both their individual qualifications and on what they want to accomplish if confirmed.

Dr. Shalala and I met privately last week about the potential issues facing her in the role of Secretary of Health and Human Services. I was encouraged by her commitment to take a fresh look not only at the policy issues facing her at the Department of Health and Human Services, but also at the organizational structure of the department as well. In our discussion, I pointed out several areas where I believe changes need to be made, and I was impressed by her expressed willingness to examine the issues and organizational structures of the department in a bipartisan fashion.

We will no doubt have occasions when our points of view will diverge, but I hope that we will continue to keep open lines of communication.

Dr. Shalala's past experience, managerial expertise, and dedication are amply reflected in the successful career she has pursued and were evident as we talked about her nomination. Yet I believe president-elect Clinton captured the significance of the challenge before Dr. Shalala when he stated that "All the mountains that Donna Shalala has climbed in the past will be dwarfed by the ones she must now climb."

The citizens of Utah are very familiar with mountains. Not only is our state nestled in the heart of the Rocky Mountains, but Utah is also grappling with the mounting costs of health care along with the rest of the United States. Utah residents are also deeply concerned over the status of our nation's welfare programs. Utahns share the view that we must strive to meet the respective needs of the elderly, the disadvantaged, and the young, but they expect their federal government to act wisely, effectively, and with some respect for the hard work that produced the tax dollars being expended.

The Secretary of Health and Human Services serves a pivotal role in many of these crucial challenges. The Secretary will be dealing with issues as fundamental and complex as reining in the spiraling costs of health care while also trying to assure Utahns and all Americans access to the medical care that they need. There will be ongoing efforts to reform and control the costs of the two chief health care entitlement programs, Medicare and Medicaid. And, questions must be answered about how to meet the social and welfare needs of underserved groups in our society, including rural Americans, women, minorities, and children.

In the past, I have had good, working relationships with Secretaries of Health and Human Services. I enjoyed such a relationship with Dr. Louis Sullivan, a man I admire very much and with whom I worked closely. I look forward to continuing that tradition with the new Secretary of Health and Human Services. And, although we will, of course, disagree from time to time, I am committed to working with the Secretary on all areas of mutual concern.

In conclusion, this hearing is an opportunity for Dr. Shalala to lay out her philosophy and her goals for Health and Human Services. It is a time for her to indicate what priorities she will pursue. It is also a chance for us, as representatives of the citizens of this nation, to carefully and seriously confirm president-elect Clinton's trust in Dr. Shalala.

PREPARED STATEMENT OF CONGRESSMAN SCOTT KLUG

I suspect my decision to testify today along with Governor Thompson may give pause for thought in some Republican circles. Perception is unfortunately reality,

and the perception among Washington Republicans and some newspaper columnists has been one of absolute dismay at her appointment.

I have to tell you, however, that the perception of Donna Shalala is much different in Wisconsin than it is within the beltway. In the past couple of weeks, not only the Governor and I have praised her nomination, but so have a number of other state Republicans including John MacIver, chairman of Bush-Quayle in Wisconsin in 1988 and 1992.

Gordon Baldwin, a very conservative member of the University of Wisconsin faculty wrote a letter strongly defending her to William Safire of the New York Times when Safire attacked her as the "high priestess of political correctness." Professor Baldwin wrote in reply, "I'm not in the habit of praising Democrats, but Mr. Clinton picked a winner here."

Frankly I'm not in the habit of trying to sell Democratic appointments either, but it this case, I too think the President has chosen well. Business Week called her one of the top five college administrators in the country, and let me tell you a story I think will illustrate why.

Donna Shalala and I hit it off within weeks of my first election when she told me how strongly she opposed pork projects for the University of Wisconsin. She and I believe that in an era of increasingly tightening federal budgets *merit* should prevail in university funding. Increase funding for the National Science Foundation, Chancellor Shalala has argued, and the University of Wisconsin will win the competition on the merits of its proposals as one of the top research facilities in the country.

Merit for infrastructure and research funding—what a novel idea and one that frankly the appropriators in both the House and Senate should keep firmly in mind.

When UW deans visited my office annually and presented me with their wish lists of projects, I would remind them of both my aversion and the chancellor's to pork funding. It was not a very popular principle on campus, but it was sound public policy.

Recognizing the further constraints facing the UW at both the federal and state level, Donna Shalala began the largest fund raising campaign in UW history. Rather than whining about a lack of resources she simply committed to raising them. And she did, reaching almost $400 million—exceeding the goal while also managing to beat the time frame by months as well.

Let me explain another initiative she worked on. Like many top research facilities, much of the UW's scientific infrastructure is in rough shape. Many science and engineering buildings were built with Sputnik era money and are frankly showing their age.

Rather than begging at your doorstep, Donna developed an idea called WISTAR. In brief, she talked the Wisconsin legislature into committing funds to rebuild that infrastructure—but campuses were only eligible if they raised matching funds from the private sector. Keep in mind the program was designed in such a way that the Madison campus had to compete with two dozen other UW campuses for the money in her own program. Competition and merit.

Let me tick off a few other projects.

As a one time graduate student, I want to tell you how relieved I was when the campus of 43,000 switched from manual registration to attend classes to computerized touch-tone telephone registration. It saved students hour upon hour of waiting in line to fill out cards and register in person for each individual class. It was a move to make the campus more "user friendly" also pushed strongly by Governor Thompson.

In order to develop a potential profit center for the University of Wisconsin, Donna Shalala led the charge to privatize the University of Wisconsin hospital. She ultimately failed because of strong opposition from the public employees union, but again her instinct was to push the envelope for change.

She even shook up a sports program long on tradition and short on winning. She played a major role in luring Barry Alvarez from Notre Dame. This year the team flirted with a bowl bid and attendance soared by an average of 22,000 fans a game.

Now I don't think the Governor and I will try and convince the committee Donna Shalala is a Republican. She's a life-long Democrat, but she showed during her tenure at the UW, a tendency to bury partisan politics and an equal fervor to get things done.

She's made mistakes. Some of you on this panel, like I, will have visceral contempt for the UW's hate speech code. The code developed in response to several racial incidents on campus was an affront to the First Amendment and was correctly stricken down by the courts.

But keep in mind while Ms. Shalala was an early advocate of the idea, it was pushed and developed by the Board of Regents. Ultimately it was never put into

place on the UW campus because in time the chancellor came to understand it was a mistake, both legally and philosophically. The court case striking down the law involved all of the UW system campuses except Madison.

In balance, I believe you will find her to be an outstanding Cabinet Secretary. You will find her, I predict, someone who is tireless; willing to question assumptions not afraid of making tough choices. As a member of the House Energy and Commerce Committee, I look forward to working with her on health care in particular. The reform of health care I'm sure will at times push both of us to the edge.

Based on our experience in Madison, and the perception in Wisconsin, she will do good work in the Clinton Cabinet, and I predict do some of her best work with Republicans.

PREPARED STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN

We meet today to consider the nomination of Donna Shalala to be Secretary of the Department of Health and Human Services.

Ms. Shalala is a friend of twenty years. She is currently the Chancellor of the University of Wisconsin-Madison, the nation's sixth largest with 43,000 students. Prior to that, she served for seven years as the president of Hunter College, and as assistant secretary for policy development and research in the Department of Housing and Urban Development during the Carter Administration. She was the 1992 winner of the National Public Service Award, and was named one of the top five managers in higher education in 1990 by Business Week magazine.

She will need those skills in her new job. For many of the most challenging problems facing the incoming administration will be in her purview. The HHS budget will be around $590 billion next year, representing about 40 percent of all federal spending. Indeed, only two governments in the world spend more—the United States itself and Japan.

One of the most daunting tasks facing the new administration is health care reform. Governor Clinton has promised us a proposal in the first hundred days of his administration, and we look forward to receiving it. The recent announcement that health care now consumes 14 percent of our national produce only underscores the need for action.

Then there is welfare reform. The Family Support Act of 1988 declared that welfare dependency must not be permanent. There was to be a reciprocal responsibility to be helped off the rolls, and to get off the rolls. The measure could not have passed without Bill Clinton, then chairman of the Governors Association. In his campaign, he took the next step, as did the Democratic Party. *Two years and off to work.* According to one estimate, we would have to create 1.5 million jobs for former recipients by 1996—half the size of the current federal civilian workforce. This could be the most important domestic initiative of the new Administration.

I'm concerned, too, that we improve our measurements of welfare dependency. The Revenue Act of 1992, vetoed by President Bush the day after the election, provided for an annual report on welfare dependency and for annual numerical goals for recipients and outlays. Over time, upward of one-third of all American children will be on welfare. In New York City, about half. Welfare dependency is the key measure of family stability. This has been clear for a generation, but only just now have we summoned the will to face it.

The Secretary of HHS is also responsible for Social Security. Perhaps the biggest challenge here is a general lack of public confidence in the program. It does not help that much of the public discourse on the subject has been conducted in the rhetoric of crisis. In the 1980's government officials who knew better said that the system was going "bankrupt." Now some would have us think that Social Security is somehow a cause of the budget deficit, when the fact is that the system is running large surpluses. The latest estimates from OMB project a Social Security surplus of $63 billion for the next fiscal year, rising to $103 billion by 1998. It does not make sense to be talking about cutting COLAs or raising the retirement age under these circumstances.

Regrettably, the new Secretary will inherit several other serious problems at the Social Security Administration. Since 1986, staffing levels at the agency have been reduced by over 20 percent. As a result, service to Social Security claimants and recipients has deteriorated, as indicated by the growing backlog of pending disability claims and administrative appeals. In addition, the Board of Trustees reported last month that the Disability Instance Trust Fund may be exhausted as early as 1996, and recommended a DI tax increase offset by a decrease in the portion of the FICA tax allocated to the Old-Age and Survivors Insurance Trust Fund. We will want to act soon on this issue, and will need the Secretary's input.

As I have noted, Dr. Shalala is a long-time friend, and we look forward to working with her and hearing from her.

[Submitted by Senator Packwood]

Clinton lauds Oregon health plan

☐The Democrat addresses a wide range of issues on his campaign trip to Oregon

By FOSTER CHURCH
of The Oregonian staff

Democratic presidential candidate Bill Clinton strongly endorsed Oregon innovations in health care and education Wednesday and also broadcast his own environmental message to high school students in schools around the state.

The Arkansas governor, who is running within a few hundred delegate votes of having the nomination sewn up, talked to students Wednesday morning over Oregon Ed-Net, a statewide telecommunications system.

■ ON PEROT: Bill Clinton says Ross Perot's surging popularity will taper off once the Texan becomes a candidate and faces closer scrutiny. Page D4

Clinton fielded students' questions on health care, education reform, the peace dividend, race relations and term limits for politicians.

He left no doubt that as governor of a state that is covered roughly 60 percent by forests, he has watched the current debate in courts and in Congress over endangered species and forest jobs.

"I have enormous sympathy with loggers," he said. "They have to make a living."

But Clinton said the federal government should end the current "political gridlock" that is tying up forest lands in the courts and quickly produce a spotted owl recovery plan.

"I think we ought to get a recovery plan, and dramatically increase planting," he said, noting extensive replanting efforts that have been under way in Arkansas for the last 10 years.

Later, in an editorial board meeting at The Oregonian, Clinton said he thinks Ross Perot's appeal will fade once the Texas billionaire has to face campaign scrutiny. He also said he wants to see a full campaign based on substantive issues such as rebuilding the economy.

At Portland Community College, Clinton hit strongly on health care issues, which have been a centerpiece of his campaign. He ties spiraling health care costs in this country to economic problems in the nation and even to trade competitiveness. He says $500 of the price of a Ford automobile is the result of health care costs.

"Control of health care costs is at the core of everything we want to do to rebuild our economy as well as making this a more humane and decent place," he said.

He endorsed Oregon's innovative health care plan, although he acknowledged it was controversial and would not be necessary if Congress enacted a national health care plan similar to the one he has proposed.

The Oregon plan would increase the number of people who could get federal health care coverage under Medicaid, but it also would ration — some say ration — the kinds of services that are available. To enact the plan, Oregon needs a federal waiver from Congress or the president.

"We are rationing health care in America today," Clinton said. "If I were president, I would give Oregon permission to go forward. But we need a national system."

Clinton also endorsed the controversial education plan passed by the 1991 Oregon Legislature, which, among other provisions, would set out a dual education track and allow students after 10th grade to choose between college-oriented or technical skills programs.

Clinton's staff says he is turning more attention to education during the last weeks of the primary season.

He will give an education speech Thursday in Los Angeles in which he is expected to set out a central theme for his expected fall campaign.

Clinton said the plan would set up a fund from which any student could borrow to go to college and pay back later from earnings, or through a year or two of public service.

In the high school session and at a later impromptu rally outside Portland Community College's Sylvania campus, listeners bombarded Clinton with questions.

Race relations and the Los Angeles riots came up more than once.

"Racial tensions modernize this country," he said. "They are killing us."

He said diversity should be a source of strength in America and said that as president he would appoint members of minorities to key positions and would challenge private business to do the same.

He also said that although he disagreed with the verdict in the trial of police officers accused of beating Rodney King, he also disagreed with the rioting and looting in Los Angeles that followed it.

Solutions, he said, should get to core issues — providing greater economic opportunity in troubled areas, education opportunities and creating safe streets through community policing.

Clinton was asked at the PCC rally if he believed members of Congress should be limited in the number of terms they can serve. Acknowledging that such limits are a popular idea now, he still said he opposed them.

"It's like saying the people don't have enough sense to elect members of Congress," he said.

Students participating in Clinton's appearance on Oregon Ed-Net drew a strong reaction with a question concerning rampant cynicism and disaffection with politics.

Clinton said a president could blow away such malaise by pushing an "economic game plan," by innovative improvements in education and by challenging the young to be good citizens.

"To be cynical without acting on it is to waste time and energy," he said. "This is still the greatest country in the world if we do the things we have to do."

Clinton is scheduled to return to Oregon on Thursday afternoon to address high school students participating in the Model Democratic Presidential Nominating Convention at 4 p.m.

Clinton's only remaining active opponent, Jerry Brown, will also address the convention at 8:30 p.m. Thursday night.

The former California governor also plans stops Thursday in Klamath Falls and Coos Bay.

The Oregonian, May 14, 1992

PREPARED STATEMENT OF SENATOR DAVID PRYOR

Dr. Shalala, I would like to offer a very warm welcome to you this morning. As Secretary of the Department of Health and Human Services, you will have one on the most difficult jobs in Washington. I must say I do not envy your task. However, with your impressive credentials, talent, and management experience, there is no doubt that you will satisfactorily address the many challenges that await you.

As you may be aware, one of my top priorities for health care reform is to address the skyrocketing costs of prescription drugs. In 1992, we spent over $64 billion on drugs in the United States. That is no small chunk of change. Without cost containment, this nation's drug bill will rise to a staggering $145 billion by the year 2000. Drug prices continue to increase far more rapidly than the rate of inflation. In fact, for the twelve month period ending in November 1992, drug price inflation was 5.2 percent, four times the general inflation rate of 1.3 percent. People are hurting. They cannot afford their medications. Tens of thousands of letters that I have received from Americans of all ages over the past few months testify to this fact.

In his health care reform package, I was pleased that Governor Clinton endorsed legislation that I introduced in 1991—the Prescription Drug Cost Containment Act—to reduce section 936 tax credits for drug manufacturers that increase prices faster than inflation. Last year, my proposal was debated on the Senate floor, but we did not prevail. In that discussion several of my colleagues maintained that pharmaceutical cost containment efforts should be considered as part of an overall health care reform package. Well, that time has come. I hope I can count on your leadership to ensure that the Clinton Administration sends to Congress a health care reform package that contains a strong, comprehensive, pharmaceutical cost containment component.

On another front, we desperately need HCFA to be more responsive to consumers, the States and providers. We cannot continue to have a cold and uncaring bureaucracy. I'm particularly concerned about providing relief and flexibility to States who find themselves in a budget crunch. As a former Governor, who was succeeded by the President-elect, we both have first-hand experience with the sometime onerous burdens that various mandates and regulations place on State budgets.

Specifically, States are feeling overwhelmed by the financial pressures of their Medicaid and other health care programs. Just last month in Arkansas, a Medicaid crisis was averted when a special session of the legislature was able to raise $70 million in new revenues—which is only one-half of the money they actually need to keep the program going until June. Cost containment is only part of the answer, as you well know. We also need to give States flexibility to do what they need to do to provide affordable, accessible health care.

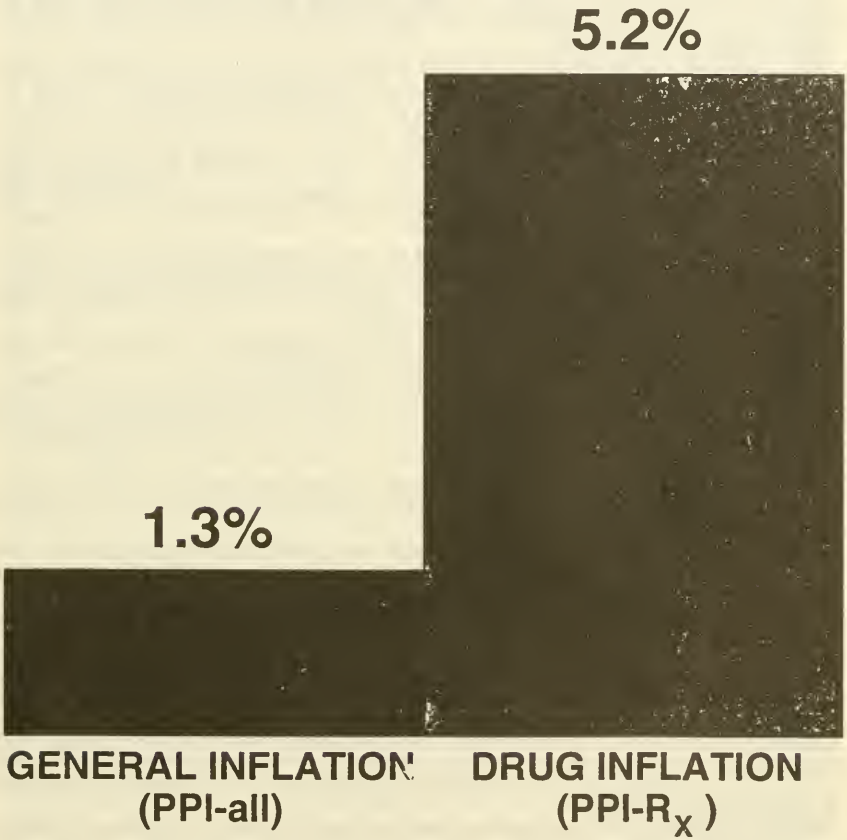
As you well know, this year the debate over health care reform will take center stage. In this debate, sensitivity to the needs of small businesses will be extremely important. Insurance companies, responding to high costs, have turned more and more to practices that discriminate against small businesses. As a result, smaller firms seeking coverage are priced out of the market, and in some instances are excluded altogether.

The needs of rural areas are always a special challenge. I am particularly concerned about developing incentives for physicians and other health care personnel to practice in non-urban regions, and look forward to the vision you may provide for implementing innovative approaches to this continuing dilemma.

As Chairman of the Senate Aging Committee, I am curious as to what role long-term care will play in the health care reform debate. As you know, between 9 and 11 million Americans of all ages today are in critical need of some type of long-term care. I am especially looking forward to working with you on this issue.

While I have summarized a few of my primary concerns, there are a host of other issues you will be facing as you assume your new post. I encourage you to look to people both inside and outside the beltway for advice and expertise, especially taking advantage of the many resources at the State level.

I congratulate you on your nomination, and look forward to the confirmation proceedings this morning.



PREPARED STATEMENT OF SENATOR JOHN D. ROCKEFELLER IV

I am extremely pleased to be here today for the confirmation hearing of Donna Shalala to be Secretary of Health and Human Services. I honestly cannot think of a more challenging job in the Administration, and from what I have learned, and from what I know about president-elect Clinton's candidate, I cannot think of a more qualified or seasoned person to carry out the President's agenda for health and welfare.

The Secretary of HHS has the duty of keeping Congress and the President focused on the needs of the people we serve—particularly, the health and human service needs of the millions of Americans who are helped by the programs administered by HHS. Those programs are varied, wide ranging, incredibly important, and extremely visible.

As if making sure Social Security checks are mailed out on time or paying doctors and hospitals for services delivered wasn't enough, you will be heading up an agency that will assume some of the responsibility for the bold changes and solutions that the American people demanded in this election.

Budget deficit pressures mean that reform—in all parts of the government—must be one of the watchwords. Programs that have lost their mission or effectiveness need to be revamped, revitalized, or even dropped. But those programs that we know do work, such as Head Start and childhood immunizations, should be made top priorities and fully funded.

Over the past couple of weeks we have heard a great deal about the federal deficit. Its growth—which has defied expectations—is swallowing up our nation's resources. Emotionally, it is sapping our spirit. And if we are not careful, it could end up paralyzing us from taking needed action.

The federal deficit must be tackled. And it must be tackled in a credible way. president-elect Clinton has assembled an expert team of advisors to help him in this area. We were governed in the recent years by leadership who relied on "cooking the books" and "smoke and mirrors." And we have all in some way participated in the deceit.

But at the same time we make the hard choices on deficit reduction, we also need to make the hard choices on where the federal government must *immediately intervene* to make sure all Americans have a decent standard of living. And that means moving ahead *immediately* on health care reform.

Frankly, we cannot wait until we have halved the deficit or reduced health care spending by a certain amount before we begin health reform.

First, we will never get a handle on health care costs as long as 15 percent of all Americans are without health insurance. Second, it is harmful in every possible way to have a health care system that is inaccessible to almost 10 million children. We already have enough horrors and tragedies in our world. This is something we, as a people, can prevent.

Yes, health care is a complex, complicated issue, mostly because of so many competing interests. But if we can put a man on the moon, surely we can make sure all Americans have a family doctor.

This year alone we are projected to spend over $100 billion more on health care than we did last year. That is a great deal more than we would need to spend to bring all Americans into the health care system.

On children's policy I want to urge you to push for the cost effective investments for family. We cannot take a penny wise, but pound foolish approach to children and families.

We know Head Start is cost effective, but only one-third of eligible children are served. A GAO report confirms that every dollar invested in WIC, the nutrition program for pregnant women and children, yields greater savings in reduced Medicaid spending. The same is true for child immunizations. We can help children and spend taxpayers money more wisely by investing in prevention programs, rather than paying for intensive care of low-birth weight babies or treating children with measles, mumps or polio.

Family preservation is another area where I believe investing up front in prevention programs can reap benefits for families. Our child welfare system desperately needs to be revamped, and real progress was made with legislation passed by the last Congress. But unfortunately that legislation was subsequently vetoed by President Bush. With new leadership from president-elect Clinton and you, I hope we can work to enact real reforms in the child welfare system that strengthen family preservation.

We will have similar opportunities in the area of child support enforcement. Stronger enforcement should help us collect billions that absent parents owe—but do not pay—their children. When parents don't pay, the government often does through increased costs in welfare payments, Medicaid costs and other social intervention programs. The National Commission on Children strongly recommended strengthening child support enforcement and investing in a demonstration program for child support insurance, a minimum government-assured benefit for children who have a support award, but whose parents cannot pay.

As Chairman of the National Commission on Children, I look forward to working with you to advance unanimous recommendations aimed at strengthening the well-being of America's children and families.

Soon-to-be-Secretary Shalala, I hope you will keep us honest. I hope you will make sure that we do not keep uninsured Americans hostage to success in lowering the health care costs of well-insured Americans. I hope that when you sit at the table with president-elect Clinton and the rest of his Cabinet, you make sure that these needs are not forgotten. Controlling costs and achieving universal coverage are not separable—to shore up the economy and secure our people's future, we must do both together. I look forward to working with you and getting the job done as fast as possible.

PREPARED STATEMENT OF DONNA E. SHALALA

Good morning. Chairman Moynihan, Senator Packwood, Members of the Committee: It is an honor to come before you as President-elect Bill Clinton's choice to become Secretary of the Department of Health and Human Services. I want to thank the President-elect for asking me to lead HHS, an extraordinary Department that touches the lives of every American.

I want to thank this bipartisan delegation from my home state of Wisconsin—Governor Tommy Thompson, Senator Herb Kohl, Senator Russell Feingold, and Congressman Scott Klug. I thank them for their support and their eloquent introductions, and, even more, I am proud to share with them a commitment to the people of Wisconsin.

Finally, I want to thank the Finance Committee Members who made time in their schedules to meet with me, advise me, and encourage me in the days since my appointment was announced.

As we met, I discovered that there is considerable common ground among us. We believe in public service as a noble calling. We are committed to aiding and assisting the elderly. We want to help the indigent return to the workforce. We want to defeat drug abuse and reclaim the future for an entire generation of at-risk children. We want to support and strengthen families. And we, the new Administration and the Congress, want to reach a consensus on a significant health care reform proposal that lowers costs and provides health care for all Americans. These issues are central to the Department of Health and Human Services because they are central to people's lives.

Mr. Chairman, before discussing the mission of the Department of Health and Human Services defined by President-elect Clinton, I would like to tell you briefly about how my professional background has prepared me to lead HHS.

All my life—as a teacher, as an urban policy analyst, as the leader of two fine higher education institutions, and as a public servant at the Department of Housing and Urban Development—I have devoted myself to the concerns of average working people and the struggles they face.

I have hands-on experience dealing with problems of teenage pregnancy, housing for single mothers, services for the elderly and handicapped, and the need to integrate social services in rural communities. At Hunter College and the University of Wisconsin-Madison, I directed large, multi-faceted public institutions that serve a broad spectrum of Americans with programs of the highest academic excellence.

At Madison, I administered a $1 billion budget stretched ever more tightly due to cutbacks in federal aid. At both institutions, I worked with and learned from the leadership of some of the nation's premier health care research centers, such as Hunter's Brookdale Center on Aging and Wisconsin's Waisman Center.

Throughout my career, I have worked to forge partnerships between the public and private sectors to help improve the health, education, and welfare of our children and their families. I have done this not only in higher education, but also as a member of the Committee for Economic Development, an organization of the chief executives of major corporations and educational institutions, and the Children's Defense Fund, the leading advocacy group for our nation's neediest children. I am deeply convinced that, in any major program of social reform, the business community must be involved from day one as full participants.

As this Committee knows, the nation is facing staggering challenges in areas served by the Department. Health care expenditures are exploding exponentially, even as 70 million Americans have no health coverage or insufficient coverage. On AIDS, we have not fully faced our responsibilities to combat the spread of the disease, to fund research, and to provide care to tens of thousands of patients who cannot afford adequate treatment. Tuberculosis, a nineteenth-century disease that we almost eradicated, threatens to come back in full force in the 1990's, especially in our large cities.

It is a scandal that we lag behind many of our competitors in the world community in immunizing our children against preventable diseases such as polio, rubella,

mumps, and measles. One in five children are now impoverished. One in five. These are our children—and our future is inextricably linked to them.

The Department of Health and Human Services can and must address these challenges—though it won't be easy and it can't be done overnight. With more than 126,000 employees and a budget that covers 250 different categorical programs, the Department has the capacity to improve the lives of every single American.

With your cooperation, with vigorous leadership from the White House, and with public support, I believe the Department will again accomplish its traditional missions and its new assignments from the Clinton Administration. We intend to collaborate with state and local agencies, and with the private sector, as we usher in a new era of empowerment for the Department's civil service employees.

No problem afflicts families around the kitchen table more than the radical escalation of health care costs, and no problem demands our greater attention as policymakers and public servants. The American people want, need, and have voted for health care reform. And we must have the courage and the wisdom to replace the existing system with something better.

We must lower the growth rate of health care expenditures so that it comes closer to the growth rate of the economy. Without such a reduction, we will price American families out of the health care market, price American exports out of the global market, and place large barriers before our efforts to reduce the budget deficit. It is also imperative that we gradually provide coverage to the 35 million Americans who have no health insurance and to the 35 million more who have inadequate insurance. President-elect Clinton has said that it is time to treat access to high-quality health care as a right and not a privilege.

Ultimately, the Clinton Administration will bring a landmark health care reform bill to the American people and the Congress—a proposal that will bear the imprint of a broad array of Americans, and reflect the ideas of consumers, providers, both political parties, state and local government, labor and health professionals, and the business community. As we develop the legislation, we will frequently ask this important Committee to provide its input and expertise, so that we get this job done promptly, and we get it done right.

As we reform the health care system, the Department will be devoting its attention and energy to other areas of critical need. We will vigorously stress prevention—in areas ranging from preventive health care and pre-natal care to family planning and disease control—so that we treat the causes of illness and indigence, as well as their consequences.

For children, this means strengthening our commitment to the Head Start program, and giving our young people a healthy start through increased immunizations. For public assistance recipients, this means embarking on an innovative effort to make welfare a truly transitional program, as part of our overall plan to ensure that those who work full-time do not have to raise their children in poverty.

For rural areas, this means helping communities empower themselves to meet their own health needs. We need to improve the quality of the rural health care delivery system, and adopt equitable federal reimbursements for their hospitals, clinics, and health professionals. A rural perspective must be at the table as we shape the new health-reform agenda.

HHS must develop a more comprehensive program of aggressive preventive education, treatment, and research to find a vaccine and a cure for AIDS. Silence and bigotry combined to slow our nation's response to this dread disease; we lost time, and that meant we lost precious lives. We want HHS to assume a very prominent role in the war on AIDS, and we will vigorously support the soon-to-be-appointed AIDS czar.

For seniors, we will place a high priority on addressing their health care needs. We must enhance home care, community based personal services, and respite care, in order to give more patients the choice of living at home and preserving their independence. Further, we will continue vigorous research on Alzheimer's disease, Parkinson's disease, and other debilitating conditions, both to ensure that Americans live high-quality lives, and to reduce our reliance on expensive, acute, and long-term care.

I will also strive to make the first four years of the Clinton Administration the "Years of the Woman" in health care. We must continue the quest to find better treatments and even cures for ovarian and cervical cancers, breast cancer, osteoporosis, and other serious conditions that women face. We must develop a comprehensive maternal and child health network and a greater number of family planning programs, which will reduce the number of unplanned pregnancies, low birthweight babies, and infant deaths. Now that the nation is better informed about date rape and domestic violence, HHS must work closely with state and local governments and the non-profit sector to develop strategies to prevent their occurrence.

From health care reform to welfare reform, from the fight against AIDS to the defense of our children's health, the Department of Health and Human Services has an ambitious and critically important agenda. In this work, we will save lives and serve the economy. I want to emphasize that all of our innovative efforts in health and human services must be accompanied by leadership at the White House and the Department that stresses individual responsibility. We should never start programs that discourage people from taking control of their lives.

Our goal is to do more than merely administer programs. We will produce results. We will treat all Americans as if they are customers in a private business. We will invest their money as wisely as if it were our own. We will treat those individuals who seek our services with dignity and attention, innovation and compassion—with fairness and integrity.

Thank you for your kind attention to my testimony. I am happy to take your questions.

U.S. OFFICE OF GOVERNMENT ETHICS,
Washington, DC, January 11, 1993.

Hon. DANIEL P. MOYNIHAN,
Committee on Finance,
U.S. Senate,
Washington, DC

Dear Senator Moynihan: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Ms. Donna Shalala. President-elect Clinton has announced his intent to nominate Ms. Shalala for the position of Secretary of Health and Human Services.

We have reviewed the report and have also obtained advice from the Department of Health and Human Services concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is a letter from the ethics official of the agency, dated January 11, 1993, which discusses Ms. Shalala's ethics agreements with respect to recusals, resignations, divestitures and certain other matters.

Based thereon, we believe that Ms. Shalala is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

STEPHEN D. POTTS, *Director*

BIOGRAPHY OF DONNA E. SHALALA, SECRETARY OF HEALTH AND HUMAN SERVICES

Donna E. Shalala was sworn in as Secretary of Health and Human Services Jan. 22, 1993. She was nominated by President Clinton, Jan. 20 and confirmed by the Senate Jan. 21.

She brings two decades of experience in management, social policy creation and analysis and nationally recognized leadership skills to her responsibilities as head of the Department of Health and Human Services, the government agency representing 40 percent of the federal budget and including more than 250 programs.

Secretary Shalala oversees the "people's department," the federal agency responsible for the major health welfare, food and drug safety, medical research and income security programs serving the American people. HHS provides direct services or income support to more than one in every five Americans.

Before coming to HHS, Secretary Shalala had served since January 1988 as chancellor of the University of Wisconsin at Madison, the first woman to head a Big Ten university. UW–Madison, the nation's sixth largest university, is the largest public research university and performs more biomedical research than takes place in any other single site in the United States except HHS' National Institutes of Health. It includes a 488-bed teaching and research hospital. Wisconsin also is one of the nation's premier transplant centers and well known for nursing research.

In 1980, secretary Shalala became the youngest woman to lead a major U.S. college when she assumed the presidency of Hunter College, part of the City University of New York System.

Shalala was born in Cleveland, Ohio, Feb. 14, 1941. She received her bachelor of arts degree from Western College for Women in 1962 and her Ph.D. from the Maxwell School of Citizenship and Public Affairs, Syracuse University, 1970.

In 1962, Shalala volunteered for the U.S. Peace Corps and spent two years teaching in Iran. During 1966–1970, she served as assistant to the director of the Metropolitan Studies Program, lecturer in social science and assistant to the dean at the Maxwell School of Citizenship and Public Affairs at Syracuse. In 1970–1972, she taught political science at Bernard Baruch College, and between 1972–1979 taught

politics and education at Teachers College, Columbia University. During that period she was a Spencer Fellow, National Academy of Education, 1972–1973; John Simon Guggenheim Fellow 1975–1976 and a visiting professor at the Yale Law School, 1976. In 1987, she was a Leadership Fellow with the Japan Society.

From 1975 to 1977, Shalala was director and treasurer of the Municipal Assistance Corporation which helped reverse New York City's financial collapse. Her performance won positive reviews from Wall Street to city administrators.

In 1977–1980, Shalala served in the Carter administration as assistant secretary for policy development and research, Department of Housing and Urban Development.

A member of a close-knit family of Lebanse-Americans, Shalala has always been interested in issues involving health, children, families, minorities and women. At HUD, she oversaw the establishment of funding for battered women's shelters and the commissioning of special studies of the housing needs of families headed by women. At the University of Wisconsin she promoted diversity in the student body and staffs, spearheaded a campus-wide smoking ban in 1991 and moved to curb alcohol abuse among students.

For more than a decade she served on the board of the Children's Defense Fund, becoming its chair in 1992. She was a member of the Committee for Economic Development that issued reports on strategies to better meet the health and educational needs of disadvantaged young children.

Among her many directorships and trusteeships have been: Spelman College, the Brookings Institution, the Carnegie Foundation, Spencer Foundation, Institute for International Economics, Council of Foreign Relations, National Collegiate Athletic Association Foundation, New York Urban Coalition and the National Women's Law Center.

She also held memberships on the National Science Board Commission on the Future of the National Science Foundation; Advisory Committee to the Director of the National Institutes of Health; NIH Office of Minority Program's Fact Finding Team; Carnegie Commission on Science, Technology and Government; Higher Education Colloquium on Science Facilities; Knight Commission on Intercollegiate Athletes; and the Steering Committee of the Bishop Desmond Tutu Southern African Refugee Scholarship Fund.

Shalala has received honorary degrees from 17 colleges and universities.

She has lectured and written extensively on matters dealing with education; urban, fiscal, political, tax, social science and government financing issues.

In her spare time Secretary Shalala, who is single and has no children, enjoys tennis, golf, reading, and mountain climbing.

She is residing in Washington, DC.

Response of Dr. Shalala to a Question Submitted by Senator Bill Bradley

Question. There have been a number of amendments to the Medicaid program enacted by the Congress in the past few years that express the intent of the Congress—to ensure quality patient care and appropriate payments to providers of services to Medicaid patients. During the previous Administration a number of these amendments have not been fully implemented, and this has endangered the ability of states to provide needed services to some of the most vulnerable people in the country. In New Jersey we are facing a particular problem with payments to state and county psychiatric hospitals who see large volumes of Medicaid patients. Can we be assured that these problems will receive your prompt attention, and that the position of the previous Administration will be reconsidered?

Answer. Yes. I am well aware of these issues and have received a memorandum to provide me a first cut analysis. In addition, the Department, particularly officials at HCFA, will work quickly to evaluate time sensitive Medicaid reimbursement issues within the upcoming weeks. You can be assured that, within that process, we will do everything we can to ensure that New Jersey, as well as all states, get a fair and thorough consideration.

Responses of Dr. Shalala to Questions Submitted by Senator Pryor

Question No. 1. As a candidate, Bill Clinton endorsed S. 2000 as a way to contain drug costs. Do you share the President-elect's commitment to including pharmaceutical cost containment as part of the overall health care reform package? Do you agree that we need strong measures in place to contain drug costs?

Answer. I am well aware of your concern about increasing prescription drug costs. Your hard work and commitment in this area has been influential and persuasive to both the President-elect and myself. In this regard, I do share the President-elect's commitment to containing drug costs within the overall framework of health

reform. To achieve this, we will have to evaluate new policy and other approaches that heretofore have not been possible. I look forward to working with you and other interested Members of the Congress, as well as the many interested parties in this issue, in successfully achieving prescription drug cost containment.

Question No. 2. Over the past few years, we have seen very high prices for drugs which have been developed at the NIH, such as AZT and DDI. Many consumers, as well as myself, do not believe that this represents a fair return on our taxpayer-investment. On February 24th, I have scheduled a hearing on this very subject. It is my hope that you or some senior level Member of your Department will testify and be prepared to comment on the need to assure that the prices of drugs developed by federal funds should reflect the investment that American taxpayers have already made.

Answer. I am aware of this issue, understand your concerns, and look forward to working with you to create fair solutions. As a first step. I can assure you that I or an appropriate representative of the government will be happy to testify at your hearing.

Question No. 3. As Secretary, will you be sensitive to the special needs of rural America?

Answer. Yes. I share your concern about the tremendous health care problems facing rural America. If we are to truly address the needs of rural communities, we must ensure that rural interests are represented at the table. This includes recognizing that a "one size fits all" approach will not work. The key to our reform efforts, however. will be achieving a balance that ensures all Americans have basic health benefits no matter what the circumstances particular to the region.

Question No. 4. Can you assure me that you will work to get the problems associated with the management of Medicare, in particular fraud and abuse, under control?

Answer. This problem is important to both President-elect Clinton and me. If we crack down on billing fraud and eliminate incentives that invite abuse, we undoubtedly will be able to control some of the spiralling health care costs in that Department.

Question No. 5. As Secretary, will you ensure that the doors of the Medicare bureaucracy are opened to older Americans so that they can help safeguard the program?

Answer. One of the greatest problems expressed by Americans across the nation is that our bureaucracy is not responsive to them. Our governmental agencies must begin to understand who its customers are and who we serve. If we work with individuals in partnership, we can energize HHS so that it fulfills its mission to ensure the health and well-being of all Americans.

Question No. 6. What is your opinion of offering states the incentives and flexibility they need to do health care reform on the state level?

Answer. President-elect Clinton and I recognize that states have been a rich proving ground for innovation when given the opportunity. The President-elect is sympathetic to state experimentation and, with appropriate safeguards and evaluative procedures, is supportive of such efforts. We understand the problems our states are facing and want to work with them to address their concerns.

Question No. 7. What can the Department do to alleviate some of the burdens that regulations and mandates place on the states without compromising access or quality of care?

Answer. Many states have complained about the restrictions that regulations and mandates place on them. A comprehensive health care reform package must distribute costs and responsibilities efficiently and fairly between state and federal governments. We will be working closely with the states and the Committee to address their concerns.

Question No. 8. What do you see the changing role of the Medicaid program?

Answer. President-elect Clinton is committed to broad-based health care reform, including changes in Medicaid and cost containment for all health care programs. Medicaid will be integrated within our overall health care reform plan. Regardless of changes that may occur, we want to ensure that the Medicaid program remains on a solid foundation.

Question No. 9. What can be done to reduce the growing backlogs and delays that are being experienced by those applying for Social Security Disability benefits?

Answer. I share your concern about the time it takes the Social Security Administration (SSA) to process applications for disability benefits. Over the last three years, disability claims have increased by about 40 percent, severely straining SSA's ability to pay benefits.

I am pleased to say that the combined effect of the additional resources SSA received through the release of the $100 million from the Fiscal Year (FY) 1992 con-

tingency reserves and the short-term initiatives SSA implemented in February 1992, were major factors in helping SSA to manage this growth well, but the pressure in backlogs continued to build.

The disability workloads will continue to receive high-level attention. Improving the disability process is a major priority for the Department. Working with SSA, we intend to develop and test alternatives in the disability decision-making process. The goal will be to find the most efficient and effective way to make timely and accurate decisions in the most cost-effective manner.

Finally, let me emphasize that the President has requested a supplemental appropriation of $302 million in FY 1993 for SSA, most of which will be used to expedite disability case processing. If the supplemental appropriation request is approved in March, we estimate that about 1 million disability cases (including almost 800,000 initial disability claims) will be pending in the State Disability Determination Services at the end of FY 1993—representing a processing time of about 4 months for an initial disability decision.

RESPONSE OF DR. SHALALA TO A QUESTION SUBMITTED BY SENATOR RIEGLE

Question. Persons with disabilities and their families have sensitive needs that will need to be addressed as part of future Department of Health and Human Services initiatives. Please outline your approach to the following issues: barriers to work contained within the definitions of disability and Substantial Gainful Activity under Social Security and SSI; personal assistance services for people with disabilities; and family centered support services for families with children with personal assistance needs?

Answer. If confirmed to be Secretary of the Department of Health and Human Services, I will work to fulfill President-elect Clinton's commitment to promote the independence and productivity of people with disabilities. I intend to work with the President-elect to examine the adequacy of work opportunities and of personal assistance services: to explore changes in federal regulations and funding that create a presumption in favor of institutionalized care over home and community-based services; and to develop programs that facilitate family-centered support services for families with children who have personal assistance needs and that encourage productive work and self-sufficiency. All of these initiatives will be part of my overall effort to make the Department of Health and Human Services more responsive to the people it serves.

RESPONSES OF DR. SHALALA TO QUESTIONS SUBMITTED BY SENATOR ROCKEFELLER

Question No. 1. I would like to know your thoughts on how we can ensure that the issues facing VA and veterans will be considered in the discussions on health care reform.

Answer. All of our federal agencies which deliver health care will be involved in health care reform discussions. This, of course, includes DoD and DVA among others. Specifically with regard to the DVA, there is much to learn from the experience of its health care delivery system, particularly recently undertaken innovative initiatives. As the new Chairman of the Veteran's Affairs Committee. I know you personally will have much to offer and I look forward to working with you on this as well as other aspects of health care reform.

Question No. 2. I was proud to chair the National Commission on Children, and am committed to pushing its agenda forward. One of the commission's strongest recommendations was in the form of a comprehensive approach to bringing income security to families—we see this as the way to help millions of children, and by rewarding work, responsibility, and playing by the rules. Briefly, our approach consists of these elements:

(1) a refundable children's tax credit of $1,000
(2) simplification and expansion of the EITC, which rewards work and makes it possible to get off welfare
(3) better child support enforcement and a demonstration project for child support insurance—to guarantee support for children when absent parents can't pay
(4) a community work program for AFDC recipients to try to get parents off of welfare for good.

Are you familiar with these ideas? What are your views about how we should strengthen income security for families with children?

Answer. I am very familiar with the recommendations made by the National Commission on Children and applaud the efforts of the Commission in producing such a thought-provoking report. The critical initiatives advanced by the Commission are consistent with the steps we at the Department of Health and Human Services will

take to address family income security—namely, tougher child support enforcement and increased opportunities for productive employment.

To this end, the Administration is pursuing child support reform and will address employment opportunity both through measures announced in the President's address to Congress and the welfare reform task force he has pledged to convene. As a major participant on the President's welfare reform task force, the Department will be working hard to ensure that community work programs, which you specifically mention, become a reality.

While the President has also addressed tax relief for vulnerable families and has proposed a significant expansion of the EITC in his recent address, the Treasury Department will have lead responsibility for developing these proposals.

Question No. 3. Last Congress, the Democratic leadership put a lot of emphasis on the idea of reforming our child welfare programs (S. 4, the Child Welfare and Preventive Services Act) in a way that would allow states to work much harder on family preservation and coordinating services to our most vulnerable children.

From my travels with the Children's Commission, I learned how desperately we need to work at keeping families together, and giving them help early. I was an original cosponsor of the bill, S. 4, and want to remind everyone that Congress included its major provisions in the tax package passed this fall. Unfortunately, the package was vetoed by President Bush.

Congress has already agreed on the need for reform of our child welfare program. The incidents of child abuse and neglect are on the rise. But the good news is that family preservation initiatives are also showing signs of success in some states. I believe we should invest in promoting family preservation.

Have you had the opportunity to review the child welfare provisions passed by the Congress and would you support swift enactment of such family preservation initiatives?

Answer. As President Clinton recently announced before the Children's Defense Fund conference, we are drafting a new child welfare initiative to combine family support and family preservation services.

This initiative will build on the work of Senator Rockefeller and others to do more for families at risk, especially those at risk of foster care placement.

I look forward to working closely with this Committee to ensure speedy passage of this key legislation.

Question No. 4. As you know, there are literally billions of dollars that are *uncollected* for child support each year. I strongly believe that we must dramatically bolster our child support enforcement system, and move boldly ahead with a new "insurance" system to provide a minimum government-insured benefit for children who do not receive the support they deserve.

Because HHS is huge, the Child Support Enforcement Office and its priorities can get lost in the shuffle. The same thing seems to happen at the state level. What kind of priority will you make child support enforcement, and what are your views on the concept of a government-insured benefit for children?

Answer. Child support enforcement will be a top priority of this Administration. The President and I have already proposed a number of concrete steps for reform that would improve the outlook for millions of children by raising the likelihood of paternity establishment for children born out-of-wedlock and by substantially increasing the collection of child support. Our proposal includes the development of a national databank to track down deadbeat parents; hospital-based voluntary paternity establishment; and a greater role for the Internal Revenue Service in addressing the most serious cases of non-support.

I look forward to working with the Congress on these and other proposals designed to dramatically bolster our child support enforcement system.

Question No. 5. I am very concerned that the complexity of the EITC form may discourage low-income working families from filing for the tax credit that they truly deserve. This credit supports hard working parents who are struggling to make ends meet. It's pro-family and pro-work.

I have strongly supported legislation to remove the interactions between the basic EITC credit and special credits for wee tots, health care, and child care. Rather than complicate the system with special credits targeted to limited families, I believe we should move to a more simple form and use any savings to expand the EITC with an adjustment for larger families.

Have you had the opportunity to review this issue, and what are your views on the simplification and potential expansion of the EITC?

Answer. The President has proposed to expand the EITC significantly, especially with respect to larger families. While this Department has a vital interest in protecting low-income families, particularly regarding issues surrounding health care

and child care, the tax credits you mention fall under the jurisdiction of the Treasury Department. Therefore, I must defer to that Department on this question.

RESPONSES OF DR. SHALALA TO QUESTIONS SUBMITTED BY SENATOR BREAUX

Question No. 1. Can you assure me that proper attention will be paid to the unique needs of rural areas and that the Clinton Administration will work with those of us from rural states to make sure that these needs are met in the context of the Administration's legislative proposal?

Answer. Yes. The health care needs of rural America are important to President-elect Clinton and me. We understand that, in order to address the needs of rural communities, we must ensure that their interests are represented at the table. This includes recognizing that a "one size fits all" approach will not work. The key to our reform efforts, however, will be achieving a balance that ensures all Americans have basic health benefits no matter what the circumstances particular to the region.

Question No. 2. What is your position on increasing federal support for remedial education programs and other support services for welfare recipients?

Answer. We are supportive of such efforts. President-elect Clinton has outlined a broad agenda for the reform of the nation's welfare system which builds on many of the most successful elements of the 1988 Family Support Act. This will undoubtedly require an expansion in federal support for such education and training programs as part of the overall welfare reform program.

Question No. 3. Can you commit to carrying this same degree of cooperation to interaction between the federal agencies and state and local criminal justice authorities?

Answer. Yes. I am committed to continuing this cooperation.

Question No. 4. Will you evaluate the AIDS research and treatment situation in Louisiana and let me know your thoughts on how we should address this situation in reviewing the Departments FY 1994 budget?

Answer. Once I am confirmed, I will be most happy to look into the clinical trial situation in Louisiana and report back to you.

RESPONSES OF DR. SHALALA TO QUESTIONS SUBMITTED BY SENATOR DOLE

Question No. 1. Can you explain to the Committee how you envision a health care system modelled on a managed competition approach?

Answer. Managed competition is a system of health care cost containment reform which seeks to control costs, expand access, and provide quality health care to all Americans. It is an element of the system of reform which Clinton outlined in the campaign.

Specifically, the managed competition approach aims to control costs by holding insurers accountable for cost and quality. The idea is to pool consumers and businesses together to act as powerful bargaining agents to gain for the community a wide choice of health plans with a comprehensive package of benefits, high quality. and better prices. A market system is created in which all individuals have a choice of plans and insurers are under pressure to work with doctors and hospitals to lower costs and raise standards. In and of itself, managed competition does not result in universal coverage, guarantee lower costs, assure access in rural and inner-city communities or meet other health care objectives. However, it is a component which forms the infrastructure for market reform and cost containment.

Question No. 2. In which areas of the health care system would we see the biggest changes under such a system?

Answer. The biggest changes would be seen in the current insurance market. Competition in the current health care system has insurers avoiding health risk, rather than sharing it. Any meaningful health reform must change that system—forcing insurers and providers to effectively manage the delivery of quality care. And everybody needs to be in the system—to have everybody pay their fair share, prevent cost-shifting from one payer to another, and guarantee security of coverage to all Americans.

Question No. 3. Do you believe that it is an employer's responsibility to purchase health insurance for their employees? Would you be in favor of mandates to accomplish this?

Answer. Our goal for health reform should be to guarantee all Americans affordable health care coverage in an efficient and high quality system. American workers, as part of our society, should be ensured that a good job provides basic Security to them and their families. All Americans, including the business community, will be expected to share this responsibility.

In developing the health care reform package, we will focus on the means to achieve a comprehensive health care plan that will control costs and is responsive to the health care needs of all Americans.

Question No. 4. President-elect Clinton said he will slow the annual health costs to the level of wage growth plus population growth. That figure would be *7.7 percent* for 1993–1997. The current annual growth for Medicare and Medicaid is *13.3 percent.* This target would require a *$218 billion cut* in Medicare and Medicaid in 5 years.

These figures are much larger than any cuts proposed or enacted in the Regan/Bush years.

In which areas do you see these cuts coming from? Further reductions in physician payments? Large reductions in payments to physicians? Reduction in covered benefits?

Answer. You raise a very important question to the complex health care cost containment issue which is before us. We have racheted down on Medicare and Medicaid reimbursement rates, but without comprehensive reform we have been unable to slow growth sufficiently. We need a long term approach which puts downward pressure on health care costs as a whole, so that the cost of medical services are not growing at double the inflation rate. The details of a cost containment plan for our proposal will be presented at the appropriate time, and we will make sure that it is well supported by this Committee.

Question No. 5. President-elect Clinton has talked about reducing the prices of drugs. If it were up to you, how would you hold down drug prices?

Answer. Consistent with his campaign positions, containing drug prices is a high priority for the President-elect. Ever increasing drug prices have placed a greater burden on businesses and individuals, particularly older Americans. I am looking at a wide variety of strategies and have yet to make any decisions about what options should be presented to the President-elect. It is my belief, however, that we cannot be successful at containing overall health care costs without dealing comprehensively with prescription drug cost problem.

Question No. 6. Would you cap price growth by tying it to tax benefits?

Answer. During the campaign, the President-elect supported a proposal similar to one advocated by Senator Pryor which linked drug manufacturing behavior to the tax credits that the industry receives. I am not yet familiar enough with this issue to comment on the specific enforcement mechanism of any approach to cost containment, but this approach will be among the options that we consider.

Question No. 7. Would you favor direct government involvement in setting the price of drugs?

Answer. We are looking at a wide array of approaches and, again, it would be premature to comment at this time on this specific approach. We must, however, find a way to contain costs for all purchasers and consumers, and this must include an analysis of what appropriate mechanisms we should consider for containing the prices of new drugs.

Question No. 8. How would you ensure that by lowering the price of drugs, you would not discourage research and development efforts on the part of pharmaceutical companies?

Answer. The charge given to us by the President-elect is to come up with policy recommendations that balance the need to contain costs with the need to retain adequate incentives to continue investment in research and development. Although we do not have specific proposals at this time, we are committed to appropriately and comprehensively responding to the President-elect's charge.

Question No. 9. What will you do to resolve backlogs and delays in processing social security disability benefits?

Answer. I share your great concern about the excessive delays in processing disabilities benefits applications. People who have paid into the Social Security system and earned this protection deserve to be treated better. If confirmed as Secretary of the Department of Health and Human Services, I will execute President-elect Clinton's commitment to ensuring the delivery of quality service to the millions of Americans who entrust their future to the Social Security Administration.

Question No. 10. The DeLuca Case—What role did you play in ordering the first panel purge its report of the finding that there was misconduct?

Answer. "Purged" is a negatively loaded work that gives a completely distorted picture of what actually occurred. Under applicable policies and procedures, the task of the panel conducting the initial inquiry and the charge to that panel was to determine whether probable cause existed to proceed to a formal investigation. Again under applicable procedures, the panel was to give the accused researchers the opportunity to comment on a draft report before it became a final report. In reviewing the draft report, Vice-Chancellor Cohen realized that the inquiry panel had ex-

ceeded its charge and had stated that "in at least two instances . . . we believe scientific misconduct by Dr. DeLuca and Schnoes did occur." Accordingly, the final version of the report was modified to state that, "we believe there are reasonable grounds . . . to warrant an investigation to determine if misconduct took place."

It is important to note that the effect of the final report was exactly the same as would have been the case if the language of the draft report had not been modified to be consistent with the charge—i.e., on the basis of the inquiry panel's report, this matter was referred for an indepth investigation.

The investigation took the form of a full quasi-judicial hearing in a format we designed to assure a thorough investigation and a fair result. Specifically, the investigatory panel consisted of renowned scientists from two sister universities (Duke and Michigan), a distinguished professor emeritus from Wisconsin and a distinguished former governor/federal court judge. UW also contracted with a distinguished attorney who acted independently of University supervision and control to serve as a prosecutor and to develop and present the case against Dr. DeLuca.

After a thorough and careful investigation, the investigatory panel concluded that there was no showing of misconduct in science and that the charges should be dismissed.

I am satisfied that the UW's actions on this matter, while I was Chancellor, were consistent with both the letter and spirit of applicable HHS regulations and did justice.to the parties concerned.

Question No. 11. What assurance can you give that Walter Stewart, whom the University of Wisconsin has repeatedly urged be censured for his statements regarding the DeLuca case, will not face retribution in your hands?

Answer. I recognize Walter Stewart's first amendment right to express his personal opinions about this controversial case, even though I think he is wrong in his conclusions. I would not take any action against him on the basis of what he said. With respect to any future issues affecting him, I will recuse myself from their determination.

Question No. 12. Will you order the Agency you clashed with to release its records of the case? To date, they have failed to do so, a blatant violation of the Freedom of Information Act.

Answer. If confirmed, I would consult with Agency counsel on this matter. At a minimum, I have made a commitment to recuse myself from any future involvement.

Question No. 13. As head of HHS, what changes would you pursue regarding the DHHS's approach to the issue of scientific misconduct?

Answer. I fully support the proposals included in the conference report accompanying H.R. 2507 (S. 2899), 102nd Congress, which I understand will be reintroduced as one of the first Senate initiatives in the 103rd Congress. The legislation will establish by statute an Office of Scientific Integrity as an independent entity in DHHS that will develop procedures for assuring that institutions receiving federal support for biomedical research have in place rigorous guidelines for conducting investigations of possible scientific misconduct and will require that the Office monitor, oversee and, where appropriate, conduct investigations. The legislation also provides for the protection of whistleblowers and for the development of regulations regarding possible conflicts of interest.

Question No. 14. Recently, there has been some discussion about creating a separate Department for the Social Security Administration. What are your feelings about this?

Answer. I understand your concern. All of us can agree that the goal of SSA is to provide the best possible service to the American public, and I do not believe that making the Social Security Administration (SSA) an independent agency would help us achieve this goal.

The supplemental appropriation we have asked for shows that this Administration is committed to providing SSA the resources necessary to achieving that goal. The issue is not SSA's position in the organizational structure of the Government, but rather, that it has the resources necessary to provide the best service possible.

Keeping SSA under the Department of Health and Human Services (HHS) "umbrella" of services, which also includes those provide by the Health Care Financing Administration (Medicare and Medicaid), the Administration on Children and Families (Aid to Families with Dependent Children), and the Administration on Aging, permits better policy coordination and integration of services. Policy coordination will become increasingly important as we develop both a health reform package and a welfare reform package.

In addition, removing SSA from HHS would eliminate the economies of administration inherent in a large Government agency at a time when we all have been asked to assist in reducing the deficit. An independent SSA would require expendi-

ture of trust fund monies for the establishment of duplicative and expensive payroll, personnel, and other support structures now operating efficiently in HHS.

RESPONSE OF DR. SHALALA TO A QUESTION SUBMITTED BY SENATOR CHAFEE

Question. Within the next few days, the Bush Administration will issue regulations implementing the Clinical Laboratories Improvement Act or CLIA. These regulations establish a special category of tests that are simple microscopic tests that will not be subject to the same requirements of other more complex tests. I agree with this decision, however, the regulation currently specify that these tests may be performed only by physicians. This is a serious problem for public health clinics which rely on midlevel clinicians such as nurse practitioners, certified nurse midwives, and physician's assistants who are also qualified to perform these tests. Would you support revising the regulations to allow midlevel medical personnel to perform these tests?

Answer. CLIA was a complicated law and it has taken a long time to put regulations together. If we find there are problems in the implementations of the regulations and further review is required, we will certainly take your recommendations and others into consideration.

RESPONSES OF DR. SHALALA TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question No. 1. How do you propose to involve the citizens of America and inform them of the pros and cons of managed competition and health reform in general?

Answer. The reason health reform is on the political agenda is because Americans are frightened and dismayed by the current health care system: they are frightened that their coverage will not be there when they need it and dismayed by the costs of care. The Administration and the Congress must work together to develop a plan that addresses these problems. This will require an extensive outreach campaign to raise and to explain the issues and the solutions in order to make the inevitably difficult choices that will be required.

Question No. 2. Is micro-management of health care providers a problem and will you work with providers to reduce the "hassle factor?"

Answer. There is no question we need to simplify our health care system. Providers should not be drowning in paper work when they need to be spending time with their patients. We must and will work with providers to develop a comprehensive cost containment strategy that addresses this problem.

Question No. 3. Please address the following issues concerning the Madison Plan:

1. Ethnic studies requirement for undergraduate students;
2. Merit scholarships for minority students; and
3. Representation of minorities and women in "sufficient numbers" in faculty and staff.

Answer. Among the stated goals of the Madison Plan was to enrich the quality of the academic life at the University of Wisconsin at Madison. One tool employed was the establishment of an ethnic studies requirement for first year students. This recommendation derived from a faculty-student committee which was appointed and which made its recommendations before I arrived at UW. The committee's recommendation of one full year required course was scaled back to a one semester requirement to be chosen from among 103 course offerings.

The merit scholarships about which you asked were private University scholarships for gifted minority and disadvantaged students.

As to our drive to attract certain types of people in "sufficient numbers," we established goals for the admission of minority students and the hiring of women and minority faculty. We sought an increase over the existing numbers to create a more diverse and hospitable learning environment. Some goals were met, others not; in no case were standards lowered for student admissions or faculty hiring (in fact, student standards rose during my tenure).

Question No. 4. There is little public information on the DeLuca case, a case involving allegations of scientific misconduct by University of Wisconsin researchers.

Apparently there was an initial investigative committee which determined that there had been misconduct; however, it is reported that Vice Chancellor Cohen ordered that these findings be purged from the panel's final report. A second panel then determined that the evidence was insufficient to support a finding of misconduct. What role did you play in the decision to purge the initial report of a finding of misconduct? To what do you attribute the sudden determination that there was insufficient information?

Answer. "Purged" is a negatively loaded word that gives a completely distorted picture of what actually occurred. Under applicable policies and procedures, the task

of the panel conducting the initial inquiry and the charge to that panel was to determine whether probable cause existed to proceed to a formal investigation. Again under applicable procedures, the panel was to give the accused researchers the opportunity to comment on a draft report before it became a final report. In reviewing the draft report, Vice-Chancellor Cohen realized that the inquiry panel had exceeded its charge and had stated that "in at least two instances . . . we believe scientific misconduct by Drs. DeLuca and Schnoes did occur." Accordingly, the final version of the report was modified to state that, "we believe there are reasonable grounds . . . to warrant an investigation to determine if misconduct took place."

It is important to note that the effect of the final report was exactly the same as would have been the case if the language of the draft report had not been modified to be consistent with the charge—i.e., on the basis of the inquiry panel's report, this matter was referred for an in-depth investigation.

The investigation took the form of a full quasi-judicial hearing in a format we designed to assure a thorough investigation and a fair result. Specifically, the investigatory panel consisted of renowned scientists from two sister universities (Duke and Michigan), a distinguished professor emeritus from Wisconsin and a distinguished former governor/federal court judge. UW also contracted with a distinguished attorney who acted independently of University supervision and control to serve as a prosecutor and to develop and present the case against Dr. DeLuca.

After a thorough and careful investigation, the investigatory panel concluded that there was no showing of misconduct in science and that the charges should be dismissed.

I am satisfied that the UW's actions on this matter, while I was Chancellor, were consistent with both the letter and spirit of applicable HHS regulations and did justice to the parties concerned.

Question No. 5. How will your conflict with the Department in this misconduct investigation affect your ability to effectively lead?

Answer. I learned that HHS needs to develop a process which fully protects the public interest in assuring the integrity of research supported with public funds, while at the same time affording a fair and reasonably prompt opportunity for the accused researchers to defend against what may turn out to be unfounded attacks on their precious reputations.

Question No. 6. Are you willing to use your position as Secretary of HHS to speak out about the importance of individual responsibility in health decisions regarding smoking, drinking and sexual behaviors that tend to lead to health problems?

Answer. Yes. I am prepared to use my position to speak out about important issues affecting the health of our population.

Question No. 7. The Community Services Block Grant program is one of the most successful and effective $450 million the Department of Health and Human Services will spend.

Community Action Agencies offer a nationwide network (nearly 1000 agencies) that would be invaluable to the Clinton Administration's community outreach and anti-poverty efforts. In fact, on the campaign trail, President-elect Clinton said that as Governor, he viewed Community Action Agencies as the primary vehicle for delivering services to low-income people in Arkansas.

I have worked to preserve the funding for the Community Services Block Grant program during the last 10 years when it was often challenged.

As the Administration considers consolidation of social services, they should keep in mind that the Community Action Agencies are already offering comprehensive social services under one roof, helping millions of families escape poverty every year.

What will you recommend to President-elect Clinton concerning Community Action Agencies and the Community Services Block Grant program?

Answer. The community action agencies have served a very useful role in providing comprehensive social services. While we must carefully examine the effectiveness of all funding sources for addressing the needs of low-income people in this country, I expect that the community action agencies and the Community Services Block Grant program will continue to play a vital role in this area.

Response of Dr. Shalala to a Question Submitted by Senator Daschle

Question. As you know, the Indian Health Service provides a wide array of health services to Indian and Alaska Native people, located mainly in Indian country, but also in a number of urban centers. Some of these health services are provided directly by IHS, but many of the health facilities and services are provided by Indian and Alaska Native tribes under a contractual agreement with the IHS. I believe it is important that any health reform proposal take into account the unique Indian health delivery system.

Have you had or do you intend to enter into discussions with the Indian Health Service and tribal people and their representatives concerning their interests in health reform legislation?

Answer. The Department, through the Indian Health Service, is committed to achieving the goal of raising the health status of American Indians and Alaska Natives to the highest possible level. Thus, we wish to emphasize that the IHS program will continue to receive our full support. However, the IHS has quite appropriately included the implications of health care reform as a current topic of inquiry and discussion with Indian health and tribal leaders. As we proceed with our reform agenda, we will certainly work closely with the IHS to assure participation in that dialogue.

RESPONSES OF DR. SHALALA TO QUESTIONS SUBMITTED BY SENATOR ROTH

Question No. 1. As I mentioned to you in our private meeting last week, I have been developing a proposal to increase access to the working uninsured through using the purchasing power of the largest privately insured group, the Federal Employee Health Benefits Program. My proposal would introduce managed competition to the FEHBP and incrementally open up this plan to small business for buy-in at the same community rate.

I suggest that my plan would be a compliment to small group insurance market reform because it would counteract some of the premium increases that would otherwise occur. Opening the FEHBP in a managed competition setting would establish competition between small group insurance markets across the nation. Premiums as well as quality of care would have to be competitive with the FEHBP plan.

I would appreciate your views on the inclusion of this approach to a managed competition model for health care reform, and your comments on the need for its inclusion with small group insurance market reform.

Answer. It is difficult to provide a satisfactory answer at this time, inasmuch as the President's Health Care Reform Task Force is in the midst of a detailed planning process that involves options bearing directly on the questions you pose. As for small group insurance and a future relationship between how federal employees and employees of small groups might be covered, it is simply too early to suggest what the Administration will recommend.

Question No. 2. The Citizens Against Government Waste has documented hundreds of billions of dollars in savings that could be achieved over five years by cutting government waste. To achieve these savings, the group makes twelve "Waste Tax Recommendations" Among them are:

—$4.5 billion in savings by requiring insurance companies, underwriters, and third-party administrators to periodically submit employer group health plan data to HCFA to improve identification and recovery of secondary payer claims;
—$6.9 billion in savings by reducing Medicare indirect medical education payments to teaching hospitals to the level supported by HCFA's historical data; and
—$2 Billion in savings by modifying HCFA's payment policy for Medicare bad debts so hospitals have more incentive to collect unpaid deductible and coinsurance amounts.

How much do you believe could be saved by eliminating government waste in your department?

Answer.

BACKGROUND

- Under current law, Medicare is the secondary payer (MSP) for medical expenses of certain beneficiaries who have health insurance coverage through an employer group plan (EGHP) as an employee or the spouse or dependent of an employee. In fiscal year 1992, Medicare achieved $2.8 billion in savings under the MSP provisions
- The most difficult problem facing Medicare in administering the MSP program 15 obtaining accurate information on beneficiaries with coverage under and EGHP. Reports by the General Accounting Office and Office of the Inspector General have indicated that Medicare has been mistakenly paying $600 million to $1 billion a year on claims that should be paid by group health plans.

IRS/SSA/HCFA Data Match

In response to this problem, Congress enacted a law in 1989 requiring the IRS, SSA and HCFA to share information that would enable Medicare to recover erro-

neous payments, as well as ensure that EGHPs fulfill future obligations as primary payers under the MSP provisions.

Since the implementation of the IRS/SSA/HCFA Data Match in 1991, Medicare has effectively identified $335 million in mistaken MSP payments. It is estimated that, under the data match, Medicare may potentially recover over $1.6 billion in the next three fiscal years for claims that were inappropriately paid since 1983. In addition, information from the data match is assisting Medicare in paying claims properly initially, rather than seeking recoveries after payment has been made. Medicare is saving over $1 million each month by avoiding these mistaken payments.

We believe that these are the types of efforts that can adequately address the problem of secondary payer under Medicare.

Reduction in IME

This suggestion has been incorporated into our legislative package which will be submitted to the Congress next month. Specifically, the current IME payment factor of 7.7 percent would be reduced to 5.65 percent by FY 1997. This will produce savings of about $3.5 billion over the FY 1994–1998 period. This 5.65 percent level is much more in line with what research (including ProPAC recommendations) has shown to be the analytically supportable level.

Medicare Bad Debts

OBRA 87 mandated that then current policy in this area remain in force without alteration. Department policy requires that hospitals hire collection agencies and make other good faith efforts to collect unpaid deductible and coinsurance amounts. After such efforts have been made, Medicare will pay for most remaining bad debts. For FY 1993, this is projected to reach $360 million.

Question No. 3. President Clinton has indicated his support to allow states the ability to be innovative in meeting the needs of their populations. I would like to bring to your attention a matter that is very important to my home state, which I hope you will agree merits approval.

Last year, Delaware applied for a Medicaid Waiver to expand health care coverage to children. This waiver combines the resources of AI Dupont De Nemours Foundation and the state Medicaid Programs in order to establish a risk-based contract for health care coverage to over 15,000 low-income children. The Medicaid waiver is needed in order to allow the innovative public-private partnership. I have written to secretary Sullivan in support of expedited review of the waiver. However, the Department has not yet responded.

I would greatly appreciate our personal attention to the expedited review of the Delaware Draft 1115 Demonstration Project Waiver to obtain a waiver under sections 1903(m)(2)(A) and 1902(a)(23) of the Social Security Act.

Answer. On October 22, 1992 Senator Roth wrote to Secretary Sullivan in support of the State Delaware's request for an 1115 Demonstration Project Waiver to expand access to risk-managed primary care for low-income children.

On December 15, 1993, Secretary Sullivan responded to Senator Roth and informed him that the Health Care Financing Administration (HCFA) would expedite the technical review of the proposal.

On January 15, 1993 the State of Delaware received a grant award enabling them to further develop and refine their Medicaid managed care demonstration. Before HCFA can approve waivers, the State must develop, and have approved, an "Operational Protocol" documenting all aspects of the proposed demonstration. The State was given 60 days to develop the Protocol.

HCFA has received the Protocol from Delaware and is expediting the review of the necessary Medicaid waivers.

Question No. 4. Recently, there has been a great deal of discussion on managed competition versus price controls as two means of achieving cost containment. There have been some suggestions to create a hybrid plan where managed competition is coupled with global budgets. In my view, this could distort the market reforms managed competition would bring to reforming health care, and it would seem contradictory to combine managed competition with global caps.

Could you please comment on how you view this combination?

Answer. The Administration does not view managed competition and short-term controls on prices and/or premiums as mutually exclusive. As you realize, we are facing increases in federal medical expenditures so large that they threaten the viability of efforts to bring the federal deficit under control.

Question No. 5. As you may be aware, since 1975, Medicare beneficiary enrollment has grown from 25 million to 35 million, while claims volume has increased by over 450 percent. In 1991, total claims processed for beneficiaries exceeded 600 million.

Of these claims, over $2 billion were paid by Medicare that should have been paid by private insurers—mostly due to Medicare secondary payer billing problems.

As you may be aware, I have proposed in the past to improve the Medicare secondary payer program by requiring employers to report annually whether employees are enrolled in group health care plans on employee IRS W–2 forms, this data would then be place in a central data bank that would be queried by Medicare contracted carriers. This proposal has been supported by past HHS Inspector General reports.

I would appreciate your comments on this approach to improve Medicare secondary payer administrative.

Answer. Under IRS/SSA/HCFA data match, HCFA contacts all employers, including those who do not offer health insurance coverage to their employees. Amending the W–2 proposal would eliminate such employers from MSP recovery efforts, reducing administrative costs and paperwork burden for both the Federal Government and employers.

HCFA would continue to obtain information from other employers in order to identify MSP situations. The W–2 proposal would allow HCFA to target these inquires more effectively than under the existing data match.

The next step, as proposed in the President's FY 1994 budget, is to expand the existing data match to Medicaid and other Federal health programs. This proposal could serve as an interim solution until a more permanent mechanism can be put in place as part of Health Care Reform.

RESPONSE OF DR. SHALALA TO A QUESTION SUBMITTED BY SENATOR DURENBERGER

Question. During his campaign, President-Elect Clinton spoke of a few welfare reform initiatives that he would support as President. One of the ideas Clinton outlined was a two-year limit on AFDC payments to recipients. Interestingly enough, my home state of Minnesota is, as usual, ahead of the game on this issue. In 1989, I helped Minnesota to obtain a waiver from HHS which enabled them to develop something called the Minnesota Family Investment Program (MFIP). This program is the most comprehensive and sweeping welfare reform initiative in any state to date. One component of MFIP is a two year limit on AFDC payments. However, this limit is flexible in nature and is designed to take individual cases into account. My question is the following:

> Will President Clinton push for a two year limit for AFDC recipients, and if the answer is yes, then will the Department insure that states retain the ultimate flexibility they need for individual cases that the state for one reason or another deems not deserving of the cut-off?

Answer. In his February 17 address to Congress, President Clinton reiterated his strong support for offering people on welfare the education, the training, the child care, and the health care they need to get back on their feet. However, after 2 years, they would have to get back to work, in private business if possible, or in public service if necessary.

At the same time, he has acknowledged that "top-down, made-in-Washington solutions" cannot work for everybody and expressed support for continued State experimentation and diversity. Based on the President's statement, I am sure that the Administration will develop a proposal that is strong enough to "end welfare as we know it," yet flexible enough to meet the needs of individual States and recipients.

All of these issues will be examined very carefully as the soon-to-be-announced welfare reform task force begins its work on this critical issue.

COMMUNICATIONS

STATEMENT OF THE NATIONAL ASSOCIATION OF SOCIAL WORKERS

The National Association of Social Workers (NASW) is pleased to submit testimony for the record in support of the nomination of Donna E. Shalala for the position of Secretary of the U.S. Department of Health and Human Services.

NASW is the largest organization of professional social workers in the world, with 142,000 members who reflect the wide range of specialized training available through social work education. Our members practice in health, mental health, child welfare, public welfare, community organization, family service, school, industry, and justice settings. Many focus their professional attention on populations with special needs, such as women, minorities, children, older people, individuals with developmental disabilities, people with HIV-related and other chronic health conditions, at-risk students, people with mental illness, and individuals with alcohol and other drug dependencies.

"Social workers are on the front lines of the human service delivery system in this country and have witnessed first hand the human devastation resulting from a decade of neglect in the area of human services," according to NASW's Executive Director, Sheldon R. Goldstein. Social workers and their clients have a great investment in the programs and policies administered by the Department of Health and Human Services (HHS). It is that investment and the social work profession's commitment to meeting human needs upon which NASW bases its support for Dr. Shalala's nomination.

NASW believes that the Secretary-designate has the critical combination of skills, experience, and commitment necessary to successfully create and administer the policies and programs that can make a difference in individuals' lives and the life of this nation. According to Goldstein, "For more than a decade in the United States, individuals and families have been forced to rely on a government that has become increasingly callous and extremely restrictive in responding to the struggles of individuals and families to secure a decent life. The appointment of Donna Shalala is a clear indication from President-elect Clinton that real changes are going to occur."

In her own words, the Secretary-designate has spent most of her adult life "working to get this nation to understand that our future is inextricably tied to the health, welfare and education of our children and their families." NASW shares this view and supports the new administration's stated priorities in the areas of health and human services. Among these are: reforming the nation's health care system and welfare policies, expanding the Head Start preschool program, immunizing all American children, and combating AIDS.

Dr. Shalala's commitment to investing in this nation's people, its human capital, is shown through her involvement with organizations such as the Committee for Economic Development, the Social Science Research Council, and the Children's Defense Fund of which she is the current chair. The nominee is well versed in issues of children and poverty, such as child welfare and family preservation, and assisted in producing "The Unfinished Agenda," a report of the Committee for Economic Development which outlines strategies for improving the health and educational outlook for children living in poverty.

In 1989, NASW and other concerned organizations urged the Department of Health and Human Services to re-examine its role in and commitment to child welfare programs and services. We encouraged the former Secretary to reassess the Department's resource allocation process, review the qualifications needed by professionals to provide leadership at the federal level, and to reopen an active dialogue with constituency groups and state and local officials. That request apparently fell on deaf ears. It is our belief that if Dr. Shalala is the Department's next Secretary, she will give child welfare and other critical human service programs the attention they demand and deserve.

Another key component in Dr. Shalala's future success at HHS will be her understanding of the role public institutions and public services play in communities and people's lives and the need to "humanize" public institutions. While at both Hunter College of the City University of New York and the University of Wisconsin, Dr. Shalala acted on her belief that institutions must be involved in bettering communities.

Betty Franklin-Hammonds, Editor-Publisher of The Madison Times Weekly Newspaper says Shalala "demonstrated her seriousness about bridging the gulf between the University and the community" by creating the Chancellor's Advisory Committee. Members of the Advisory Committee reflected the diversity of the Madison community. Hammonds recalls that Dr. Shalala had potential faculty meet with Committee members to discuss community issues and that the policy changes recommended by the Committee were taken seriously by top University personnel.

But Dr. Shalala's commitment to the community did not stop there. She also joined and participated in a number of community organizations.

At Hunter College, President Shalala supported creation of the Education Center for Community Organizing within the School of Social Work, secured financial backing for the community's Brookdale Center on Aging, and established an Employee Assistance Program to provide special services to faculty and staff and a child care center to provide day care for children of students.

Throughout her distinguished career, Dr. Shalala also has shown a special sensitivity to and keen understanding of the barriers faced by minorities and women in achieving various goals. Among her efforts to remove some of those barriers, Dr. Shalala helped create the Washington Women's Network, established the Public Service Scholar Program at Hunter College and secured foundation funding to ensure participation in the program by women and minorities, and developed the Madison Plan for improving opportunities for minority students and faculty at the University of Wisconsin. She also led efforts to develop multi-cultural and gender-balanced curricula.

Some critics contend that Dr. Shalala's belief in the need for investment in human services will result in massive expenditure of federal dollars. But Elaine Walsh, President of the NASW chapter in New York City and Director of the Public Service Scholar Program at Hunter College, says Dr. Shalala is a "super administrator" with a "solid understanding of finance" who "can work wonders with limited dollars." Walsh points to Shalala's conversion of rental property into low-cost on-campus housing for Hunter students who, due to various circumstances, were unable to live at home, and to her work as treasurer of the Municipal Assistance Corporation, which helped reverse New York City's economic woes.

Some observers also question the wisdom of choosing an HHS Secretary without extensive health care experience to lead the Clinton Administration's effort to reform the nation's health care system. NASW believes the President-elect made an excellent choice. We have a longstanding history of advocating for a national health care program that can provide comprehensive health, mental health, and long-term care services to all Americans. NASW has invested considerable energy in the current debate on health care reform, and in 1990 the Board of Directors approved the NASW National Health Care Proposal. The proposal was introduced by Senator Inouye in June of 1992 as the National Health Care Act.

To move forward on ending the health care crisis, America needs someone who understands the needs of the people, can stand up to diverse interests and build consensus among those interests, can make tough decisions, and can do it quickly and well. With so many achievements on record, it is clear that Dr. Shalala possesses all the essential elements necessary to be a successful leader on health care reform or any other program or policy under her direction. She is extremely bright and a quick study; she is dynamic and tough; she is not afraid to make difficult decisions or set limits; and she is a consummate strategist and pragmatist. according to comments from NASW members who have worked with Dr. Shalala over the years, President-elect Clinton "could not have made a better choice." Dr. Shalala is "a strong and positive presence," is a "great motivator and morale booster," is "highly ethical," and a "person of character, integrity." To every new task she brings "vision" and "spirit," but she is very "down to earth," "knows how to get things done," and "has fun doing them." "She's a doer!" NASW looks forward to Dr. Shalala's confirmation and to working closely with the new Secretary on the critical issues of the day—health care reform, welfare policy, and services for children and families. It's time "to get things done."

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